

The complaint

Mr A complains that PayPal (Europe) Sarl et Cie SCA (PayPal) lent to him irresponsibly.

What happened

In October 2016, Mr A applied for a credit account with PayPal. It was agreed with a limit of £1,000. It was defaulted in January 2020.

Mr A complained. He said PayPal shouldn't have given him such a limit. He said he was under pressure from sub-prime lenders, already had unsecured debts of £25,000, and was living on his bank overdraft. (Later, he said he had £15,000 of debts as of October 2016). He said he had 11 or 12 credit cards at the time, and all were 'maxed out'. He said his income was £1,800 per month and rent and household expenses were £1,000. Other costs were £200. But his monthly debt payments were over £1,000. So – he couldn't afford another credit account.

Between 2019 and 2021, he suffered from poor health and lost his job which made the situation worse. He said the account had been defaulted. He said the default should be removed and interest and charges refunded.

PayPal said Mr A had declared his income and expenditure on the application form, and he passed PayPal's credit checks. These included a review of his credit file and other debts. PayPal didn't uphold his complaint but paid £50 as a gesture of goodwill.

Mr A brought his complaint to us. Our investigator didn't uphold it. He said PayPal completed proportionate credit checks. Mr A had declared his income to be between £2,000 and £2,500 per month, with monthly expenses of £500. He'd seen the credit searches done by PayPal, which showed a slightly below average credit score. But it didn't show he was over-indebted.

Our investigator asked for Mr A's credit file. He said this showed he had five credit cards elsewhere at the time of the application. But there weren't any defaults. Although Mr A says he had 11 other credit cards, that may have been because the credit file only went back six years from January 2023. Mr A had provided his bank statements, but under the rules for what credit checks needed to be made, PayPal didn't need to ask for those, or see them. But he could see from the bank statements that Mr A's income was lower - £1,300 each month, with expenses of about £900 on credit commitments and rent. So that still left a monthly disposable income of just over £400.

Our investigator didn't uphold Mr A's complaint.

Mr A didn't agree. He argued his income was £1,340 per month. His living expenses were £433 (rent), plus other expenses of £700-800. He detailed seven credit cards with total minimum payments of £578 (although Mr A said £778), plus overdraft fees of £100. So – he said he could never have been able to afford the PayPal credit account. He asked that an ombudsman look at his complaint. And so it has come to me to make a final 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.

I was sorry to learn of Mr A's unfortunate personal circumstances - he has suffered illnesses and lost several jobs as a result.

In deciding whether a customer was provided with unaffordable credit or provided with credit irresponsibly, we need to understand:

- Whether the lender completed reasonable and proportionate checks to satisfy itself that the borrower would be able to repay any credit in a sustainable way?
- If reasonable and proportionate checks were completed, did the lender make a fair lending decision bearing in mind the information gathered and what the lender knew about the borrower's circumstances?
- If reasonable and proportionate checks weren't completed, would reasonable and proportionate checks more likely than not have shown that the borrower was more likely than not unable to sustainably repay what they were being lent?
- Was there a point where the lender ought reasonably to have realised it was increasing the borrower's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?
- Did the lender act unfairly or unreasonably in some other way?

And, these considerations must be borne in mind at the time of each of the increases in credit limit. The checks need to be more thorough the lower a customer's income and the higher the amount to be repaid.

In this case, I think it's reasonable to say that a limit of £1,000 can be considered low, and so the checks could be less than otherwise.

I can see that Mr A declared his income to be between £2,000 and £2,500 per month, with monthly expenses of £500. PayPal then checked Mr A's overall situation by looking at his credit file, and they found no problems on the other agreements he had in place – they could see no defaults or late payments. PayPal could also see that Mr A's credit score was just below average – but given the low limit of £1,000, I can see why PayPal agreed to lend the money to Mr A.

I was concerned about what Mr A told us about his other debts. He said they were £25,000 at the time, but later told us they totalled £15,000 – still a lot. Mr A said he had another 11-12 credit cards. If that were the case, we would've expected PayPal to have seen this and asked questions. So we asked Mr A for his credit file.

I looked at this – and it shows he had (in October 2016) – a bank overdraft (about £3,500 debit); and two other credit cards, one with a limit of £3,400 and another with a limit of £500. I can see there were another five credit agreements which started between January 2017 and April 2019. There were also agreements with a debt collection agency – which also started after October 2016. But – it does appear as though a lot of new debt occurred after the agreement with PayPal.

On the credit accounts I can see on Mr A's credit file - they were all paid up to date, with no late payments or defaults – so as far as PayPal were concerned, they could see Mr A was paying his way.

I know Mr A argues that he had other credit cards and debts – but I can only make a decision based on the evidence I can see. And that shows what I've said it does. And it also agrees with what PayPal told us they saw at the time.

Mr A has also argued his income was less than he declared to PayPal, and his expenses were higher. But PayPal have told us that these figures were declared by Mr A. So – I can't hold them responsible if the information wasn't accurate. Mr A has also shown us his bank statements which he said shows he was making payments to some other credit cards. But having thought about that – we would only expect a firm to ask for, and look at, bank statements if there was a reason to do so – for example, if the credit searches showed up some issues, significant other debts, or defaults. And in this case - PayPal's information didn't.

I know Mr A has gone through a difficult time, and I'm sorry he has. But based on the information I have seen and considered; I am not asking PayPal to do anymore here.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 11 September 2023.

Martin Lord
Ombudsman