

The complaint

Miss B complains that PayPal (Europe) Sarl et Cie SCA irresponsibly gave her a credit card she couldn't afford.

What happened

In April 2017, Miss B applied for a credit card with PayPal. She was given an initial credit limit of £1,050. The limit was increased five times until in October 2021, her credit limit was £5,300.

Miss B complained to PayPal July 2022 to say that she should never have been given the credit card and subsequent limit increases. She said that she had since gone into an IVA due to the amount of unsustainable debt she had been in. She said that if PayPal had completed appropriate checks before lending it would have seen she couldn't afford the credit.

PayPal didn't agree it had acted unfairly. It said it had completed adequate affordability checks each time it extended credit to her and that those checks didn't reveal any affordability concerns.

Our investigator recommended the complaint be upheld in part. She didn't think PayPal's affordability checks had gone far enough for each of the credit limit increases, however, it wasn't until the final limit increase that she considered proportionate affordability checks would reasonably have revealed that Miss B would struggle to repay.

PayPal didn't accept that outcome, so the complaint has been passed to me for 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.

Prior to granting Miss B with credit, PayPal needed to ensure she could afford to sustainably repay what she borrowed. There isn't a set list of checks PayPal needed to complete. Instead, any checks it did had to be proportionate in the given circumstances. This means that what is considered proportionate can vary from one lending decision to the next, and in the case of an open-ended revolving credit facility such as the one PayPal granted, it's likely more thorough checks would be required the longer the lending relationship went on (and the more credit that is granted).

In deciding what was proportionate, PayPal needed to take into account things such as (but not limited to): The amount of credit, the size of any reasonable regular repayment (for credit cards this is likely to be much more than the contractual minimum repayment (see rules and guidance in CONC)), the cost of the credit and the consumer's circumstances.

As part of the application, Miss B declared that her income was between £1,501 and £2,000

per month and that her total committed expenditure didn't exceed £1,000 per month. PayPal says it also completed a credit check, although it hasn't provided us with those checks, it has told us Miss B had no adverse information being reported. Miss B has supplied us with a copy of her credit file and based on this, I've not seen any reason to question what PayPal says it saw.

Overall, taking into consideration the circumstances of the lending being applied for, what PayPal was told by Miss B and what it could see from its own checks, I think it gathered a reasonable and proportionate amount of information and evidence before deciding to lend. Having reviewed what information and evidence was available, I've not seen anything to make me think PayPal made an unfair lending decision in opening the credit card account with an initial limit of £1,050.

For each of the credit limit increases, PayPal says it completed credit checks and reviewed Miss B's account activity on her PayPal credit card. However, I don't think PayPal completed reasonable and proportionate affordability checks on each of these increases. I consider each time it should have done more before deciding to lend. I'll set out in turn my reasoning for each increase and what that means for PayPal's decision to lend to Miss B. However, in summary, I think that prior to each increase I consider PayPal should have sought to verify Miss B's income and expenditure in some way.

The first limit increase was in November 2017. This was by a modest amount of £250, bringing the total limit to £1,300. However, since the account opening Miss B had taken out a further credit card and a personal loan. It appears she also took out two other credit cards only a few days before being accepted for the PayPal credit card. It's unlikely PayPal would have seen this during the application. So, by the first limit increase it would see that she had at least four additional credit commitments that weren't visible earlier. I think this sharp increase in unsecured borrowing ought to have prompted more thorough affordability checks from PayPal.

In the absence of any income and expenditure verification done by PayPal at the time, I've relied on copies of Miss B's bank statements from the time. I think these give a good indication of what information PayPal would likely have discovered about her income and expenditure if it had completed adequate checks. Having reviewed her statements from around the time of the first limit increase, I've not seen anything to make me think that more thorough checks by PayPal would likely have led to a different lending decision. It appears from what I've seen that Miss B could afford the new credit limit. PayPal therefore didn't make an unfair lending decision.

The second limit increase was in August 2018. This time the limit increased by a much more significant £1,000 to a total of £2,300. At this point, PayPal's credit checks indicated Miss B's unsecured debt had more than doubled and she now owed nearly £40,000 to other creditors. And her monthly repayments towards debts had increase more than threefold. This ought to have prompted more thorough affordability checks.

However, Miss B's bank statements indicate that this new credit limit appeared to still be affordable to her. While her credit commitments had increased, so had her income and she was sharing most essential and committed expenditures with her partner. I therefore don't think PayPal made an unfair lending decision in relation to the second increase.

The third increase was in April 2019. Once again it was increased by £1,000 to a total of £3,300. I can see that PayPal's credit checks showed that Miss B's credit commitments hadn't changed since the last limit increase. However, given the time that had passed and that it was proposing to give her a further £1,000 of credit, I think more thorough checks ought to have been completed by PayPal.

Miss B's bank statements around this time once again indicate that the limit increase appeared to be affordable to her. I therefore don't think PayPal made an unfair lending decision when it increased her limit a third time.

The fourth limit increase was in October 2019. This was again another £1,000 increase to a total limit of £4,300. PayPal's credit checks showed that Miss B's unsecured debt had decreased slightly since the last limit increase but was still close to £40,000 overall. However, I note that the checks also indicated that her percentage of debt compared to her income had significantly increased. This suggested Miss B's income may have lowered and ought to have prompted more thorough checks.

Miss B hasn't been able to provide all of her bank statements for this particular period of time. However, from what she has been able to provide, I've not seen anything to suggest her financial circumstances had deteriorated from the previous limit increase or that she had insufficient disposable income to comfortably meet all of her commitments. I've therefore not seen anything to make me think PayPal made an unfair lending decision in relation to the fourth increase.

The final increase was two years later, in October 2021. This also increased the limit by £1,000 to a total of £5,300. PayPal's checks show Miss B now held debts totalling over £150,000. However, much of this was a mortgage. Her monthly debt repayments had also increased. Clearly, Miss B's personal circumstances had significantly changed since the previous lending decisions and this ought to have prompted more thorough checks by PayPal.

At this time I think proportionate affordability checks would likely have revealed that Miss B couldn't sustainably afford a further limit increase. Her repayments towards loans, not including her mortgage, were taking up around half of her income. On top of this she also held a number of credit cards with different lenders. Any reasonable further checks at this time I think would have shown that Miss B was overindebted and arguably already struggling with her existing commitments. I'm therefore satisfied that if PayPal had completed adequate checks, it would have seen this too. I therefore don't think it made a fair lending decision when increasing the limit a final time.

As I think PayPal made an unfair lending decision, I think it should put things right. Miss B has used the credit that was given to her, so I think it is fair that she pays back what she borrowed. However, as I don't think PayPal should have placed her in that position, I think it's fair it refunds any interest, fees, charges and insurances that it applied in relation to balances that exceeded the previous limit of £4,300. It should also ensure Miss B's credit file is updated to remove any adverse information that might have been recorded following the final limit increase. I understand Miss B is currently subject to an IVA. It will be up to Miss B to ensure she complies with the terms of her IVA if any refund is payable to her by PayPal.

My final decision

For the reasons given above, I uphold this complaint and direct PayPal (Europe) Sarl et Cie SCA to:

- Rework the credit card refunding any interest, fees, charges and insurances (not already refunded) applied against balances that exceeded £4,300 from October 2021.
- If the rework results in Miss B having made any overpayments, then those overpayments should be refunded to her along with 8% simple interest per year from the date of each overpayment to the date of settlement. PayPal should also remove

any adverse information it might have recorded on her credit file after October 2021 (if applicable). Or;

- If the rework results in there still being a capital balance outstanding, PayPal should put in place an affordable and sustainable repayment plan for the remaining amount. Once Miss B has paid back the amounts she borrowed then PayPal should remove any adverse information it might have recorded on her credit file after October 2021 (if applicable).

If the outstanding balance of the account has been sold to a third party, PayPal should either arrange to buy back the debt so that it can carry out these directions, or ensure the third party does so on its behalf.

If PayPal considers tax should be deducted from the interest element of my award it should provide Miss B with a certificate showing how much it has taken off, so she can reclaim that amount if she is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 28 September 2023.

Tero Hiltunen
Ombudsman