

The complaint

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

What happened

In January 2018, Miss K applied for a credit card with PayPal. She was given an initial credit limit of £1,500. The credit limit was reduced to £1,400 in April 2020 and then increased to £1,450 a month later.

Miss K fell into financial difficulties and from PayPal's contact notes it appears she told them she was no longer working from around October 2019. PayPal says the account was defaulted in January 2020.

Miss K complained to PayPal in 2022 to say that the credit card shouldn't have been granted to her as it was unaffordable from the outset. PayPal didn't uphold her complaint. It said it had carried out appropriate affordability checks which showed that she had adequate disposable income to afford the regular repayments.

I sent Miss K and PayPal my provisional decision on 4 August 2023. I explained why I thought the complaint should be upheld. I said:

Prior to granting credit PayPal were required to ensure Miss K could sustainably afford the regular repayments. There isn't a set list of checks it needed to complete, however, it needed to ensure that any checks it did were proportionate in the circumstances. What is considered proportionate will vary with each lending decision and will take account of things such as (but not limited to): the amount borrowed, the type of credit, the size of any regular repayment (for credit cards this includes the ability to repay the entire credit limit in a reasonable period of time), the cost of the credit and the consumer's circumstances.

PayPal says that as part of the application it asked Miss K to declare her income and expenditure by selecting from pre-determined bands. For income, Miss K declared she was working part-time and earned between £501 and £1,000 per month. For expenditure, she declared between £0 and £500. PayPal says it estimated a mid-range in each band (i.e. circa £750 monthly income and circa £250 monthly expenditure), leaving her with a monthly disposable income of £500. Miss K also declared she lived at home with her parents.

PayPal says that it also completed a credit check which it says raised no affordability concerns, although it hasn't provided us with specific data its checks revealed, such as how many accounts she had and their respective repayment history (it has only given us various scores this data produced which it says demonstrate there were no issues).

PayPal considers its checks were sufficient. However, in the circumstances of this case, I don't agree.

I say this because the rules stated that when assessing income and expenditure it was generally not sufficient for PayPal to rely solely on Miss K's declaration of those figures. In other words, the general expectation was that it should seek some assurances of those figures through other means as well. PayPal may argue that it did this by estimating a median figure in each band. However, this clearly was problematic in this case.

PayPal's guess as to what Miss K's disposable income was equated to £500. However, it was equally possible given the ranges she declared that her disposable income was as little as £1 or as high as £1,000. Essentially, the information Miss K declared was not very helpful at all in determining whether she could reasonably afford a credit limit of £1,500.

I note PayPal completed a credit check, and as I've mentioned above, it hasn't shown us the specific results of those checks (down to account level). However, from what Miss K has provided us, it's clear she had been living in her overdraft on her current account for some time and was consistently more than £1,500 overdrawn. This would most likely have been visible on any credit check PayPal completed.

So, in summary, PayPal knew that the most Miss K earned was £1,000 per month (or potentially as low as £501) and that she had up to £500 in declared monthly expenditure. Given that I consider it likely it also knew she was consistently more than £1,500 overdrawn every month, that ought to have caused it to question its own assumption that Miss K had £500 in disposable income each month. If she did, her overdraft utilisation ought to have decreased month on month instead of fluctuating between £1,500 overdrawn and £1,800 overdrawn.

Further, based on what PayPal ought to have realised about Miss K's existing credit utilisation (her overdraft), it would have been clear that any credit PayPal were to provide to her was going to be paid for using other credit, not from any available funds Miss K might have had left over after being paid. This is because her income (even if it had been as high as £1,000 per month) wasn't enough to clear her overdraft. So, it follows the only way she could pay PayPal was by using borrowed money from her overdraft.

This would not have been a sustainable arrangement and I think this ought to have been clear to PayPal at the point it completed its checks on whether to lend to her. I therefore don't think it made a fair lending decision by granting Miss K the credit. This is because it had a very real possibility of causing her detriment by causing her financial difficulty as she would be having to pay credit with other credit.

I also have considerable concerns about PayPal's decision to increase Miss K's credit limit in May 2020. This is because at this stage PayPal had already defaulted the account due to sustained arrears and financial difficulty and only the month before had reduced the limit. I'm unsure why it considered it a sensible idea to increase the limit after this point given everything that had gone before it. However, as I think the complaint should be upheld from account opening, I'm satisfied my proposed remedy (set out below) will also put right any unfairness caused by PayPal from this limit increase.

As I don't think PayPal ought to have approved the credit card at all, I don't think it's fair that Miss K should have to pay any interest, fees, charges or insurances that may have been applied to the account. However, as she did spend money on the account, it's fair she should pay back the capital amounts she borrowed. For the same reasons, I don't think it would be fair for her credit file to reflect adverse data in

relation to credit she should never have received. So, once all adjustments have been made and Miss K has repaid the capital amounts borrowed, I think it's fair for PayPal to remove all adverse reporting from her credit file in relation to this account.

Miss K accepted that outcome, but PayPal didn't. However, PayPal had no new evidence or comments to provide.

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 neither party has provided any new comments or evidence in response to my provisional decision, I've seen no reason to reach a different conclusion. I'm satisfied for the reasons given above in my provisional decision that PayPal acted unfairly in granting Miss K credit and increasing her credit limit. I therefore think it should put things right in the manner I set out in my provisional decision.

My final decision

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

- Rework the account removing all interest, fees, charges and insurances (not already refunded), so that Miss K only needs to repay any capital she borrowed.
- If the rework results in Miss K having paid more than she borrowed, PayPal should refund any overpayments, adding 8% simple interest to each overpayment from the date it would have first been made to the date of settlement. It should also remove any adverse information it has recorded on her credit file. Or;
- If the rework results in Miss K still owing some capital to PayPal, it should set up an affordable repayment arrangement with her for the outstanding amount. Once the capital has been repaid, PayPal should remove any adverse information it has recorded on her credit file.
- If PayPal has sold the debt to a third party, it should either arrange to buy the debt back to carry out the above directions or ensure that the third party carries out these directions on its behalf.

If PayPal considers tax should be deducted from the interest element of my award, it should provide Miss K 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 K to accept or reject my decision before 13 September 2023.

Tero Hiltunen
Ombudsman