

The complaint

Mrs H believes PayPal (Europe) Sarl et Cie SCA acted irresponsibly by agreeing a revolving credit agreement she'd applied for.

What happened

In January 2021, Mrs H was provided with a revolving credit account with PayPal. This account had a credit limit of £2,000.

Mrs H has complained that PayPal didn't act responsibly when approving the credit. She's said she didn't think PayPal carried out appropriate affordability checks at the time her application was approved, as she was in financial difficulties at the time, wasn't working due to ill health, and was continually in her overdraft. So, she thought PayPal had made her financial situation worse.

PayPal considered this complaint, but they thought they'd done adequate checks, which showed that Mrs H could sustainably afford payments. And they didn't uphold her complaint.

Mrs H wasn't happy with this, so she brought her complaint to us for investigation.

When Mrs H made the application to PayPal, she declared a monthly income in the range of £2,001 to £2,500; and monthly committed expenditure of between £1 and £500. PayPal used the mid-point of these ranges and said that Mrs H had sufficient monthly disposable income to support the payments. PayPal also said that Mrs H's credit file didn't show any defaults in the previous 12-months, and that they wouldn't automatically decline an applicant who wasn't working, but they would consider this as part of their overall lending decision.

Our investigator said that, while Mrs H may've shared finances with another person, PayPal should've assessed her affordability alone, as she was personally liable for the debt. And, as Mrs H's credit search showed other credit commitments, they should've got a more thorough understanding of Mrs H's day-to-day living costs.

The investigator considered Mrs H's financial circumstances at the time of her application, and said her income was lower than she'd declared, and that she was reliant upon payments from her ex-partner to maintain payments to her credit commitments. The investigator also thought that Mrs H's bank statements showed a pattern of compulsive spending, which indicated she was unlikely to be able to sustain payments to PayPal without causing her significant financial difficulties.

Because of this, the investigator said that PayPal shouldn't have approved the application. And they said that, while Mrs H should be responsible for what she spent on the account, PayPal should refund any interest and charges, plus statutory interest, and apply this off any outstanding debt.

PayPal didn't agree with the investigator, and they asked for an ombudsman 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did PayPal complete reasonable and proportionate checks to satisfy itself that Mrs H would be able to repay the credit in a sustainable way?
 - a. if so, did PayPal make a fair lending decision?
 - b. if not, would reasonable and proportionate checks have shown that Mrs H could sustainably repay the borrowing?
2. Did PayPal act unfairly or unreasonably in some other way?

And, if I determine that PayPal didn't act fairly and reasonably when considering Mrs H's application, I'll also consider what I think is a fair way to put things right.

Did PayPal complete reasonable and proportionate checks to satisfy itself that Mrs H would be able to repay the credit in a sustainable way?

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the credit being applied for; as well as the borrowers' personal circumstances at the time of each application.

PayPal have explained they checked Mrs H's credit file and considered this alongside the information Mrs H had provided in her application. And they've provided a summary of this.

The information Mrs H provided shows she declared her employment as 'homemaker' with an income range of £2,001 to £2,500 a month. She also declared that she had a mortgage and her monthly living expenses were between £1 and £500 a month. PayPal's credit card summary shows that Mrs H had unsecured credit totalling £17,910, and that she didn't have any defaults or delinquent accounts within the previous two years.

I wouldn't have expected PayPal to decline this application just because Mrs H had declared herself to be a homemaker. However, I would expect PayPal to take this into consideration when making their lending decision. And, while they say they did this, I'm not satisfied that the checks PayPal did were reasonable and proportionate in the circumstances.

While Mrs H declared an income in excess of £2,000 a month, this doesn't match with her declared employment. What's more, declared total monthly expenses of £500 seems low for someone who says they have a mortgage. And, while PayPal's summary says Mrs H owed almost £18,000, there's nothing to show what her committed payments to this debt were.

As such, I'd expect PayPal to have done further checks to verify Mrs H's actual income and expenditure, so they could assess whether the agreement was sustainably affordable.

Would reasonable and proportionate checks have shown that Mrs H would be able to repay the credit in a sustainable way?

Mrs H has provided copies of her bank statements for the period 1 November to 31 December 2020. While I wouldn't necessarily have expected PayPal to have asked Mrs H for copies of these, I'm satisfied that the statements would give a good indication of what PayPal would likely have taken into consideration had they asked Mrs H to prove her income and committed expenditure during that specific period.

The bank statements show that Mrs H's sole source of income was from benefits, which averaged £1,627 a month. However, she also received an average of £1,228 a month from her ex-partner. Mrs H has explained that her partner would help her out as and when she needed it. Mrs H also received ad-hoc payments from winnings from lottery and raffle syndicates.

The statements show that Mrs H was paying an average of £605 a month for her council tax, energy, insurances, and telephone; and a further £432 a month to her existing credit commitments. There is no mortgage showing on these statements, although they do show Mrs H was spending around £223 a month on food. And they show that Mrs H had a £500 overdraft which she used occasionally during each month.

However, the bank statements show multiple online shopping transactions, mainly to two companies, but with multiple purchases each day. And these purchases averaged £1,969 a month. In addition to the purchases with these two companies, there were other online shopping transactions, and Mrs H regularly made direct payments to people, with the references indicating purchases had been made through an online marketplace.

Allowing for these payments, even given the support Mrs H was receiving from her ex-partner, Mrs H was spending more each month than she was regularly receiving. She's explained that her physical and mental health problems had resulted in a compulsive spending habit at the time of the application to PayPal. And, had PayPal done reasonable and proportionate checks to verify her income and outgoings, this would've become obvious to them.

As such, I'm satisfied that reasonable and proportionate checks would've shown that Mrs H was unable to sustainably repay the credit. And, given this, PayPal shouldn't have approved the application. So, I think they should now do something to put things right.

Did PayPal act unfairly or unreasonably in some other way?

I haven't seen anything to make me think PayPal acted unfairly or unreasonably in some other way.

Putting things right

Mrs H made use of the credit facility PayPal provided, and she purchased goods and/or services with this. As such, it's only fair that she pays for these. However, as PayPal shouldn't have approved her application, I don't think it's fair that she should pay any interest and charges. So, PayPal should refund these, along with statutory interest.

Therefore, if they haven't already done so, PayPal should:

- end the agreement; and
- refund all interest and charges (including any 'Buy Now Pay Later' interest) applied to Mrs H's account

PayPal should calculate how much Mrs H would've owed, after the adjustments above. They should then deduct any repayments Mrs H has paid since the account was opened.

If Mrs H has paid more than the adjusted balance, then PayPal should:

- refund any surplus balance to Mrs H;
- apply 8% simple yearly interest on the refund, calculated from the date Mrs H made the overpayments to the date of the refund[†]; and
- remove all adverse entries relating to this agreement from Mrs H's credit file.

However, if any outstanding balance remains, then PayPal should:

- if applicable, recover any debt back from any third-party to whom it may've been sold to OR liaise with the debt owner to ensure that all steps are undertaken;
- arrange an affordable repayment plan with Mrs H, while taking into consideration the FCA requirements to treat customers in financial difficulties with forbearance and due consideration; and
- when the debt has been fully repaid, remove all adverse entries relating to this agreement from Mrs H's credit file.

[†]HM Revenue & Customs requires PayPal to take off tax from this interest. PayPal must give Mrs H a certificate showing how much tax they've taken off if she asks for one.

My final decision

For the reasons explained, I uphold Mrs H's complaint about PayPal (Europe) Sarl et Cie SCA. And they are to follow my directions above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 24 October 2023.

Andrew Burford
Ombudsman