

Complaint

Miss N has complained about a credit account PayPal (Europe) Sarl et Cie SCA ("PayPal") provided to her. She says that she shouldn't have been approved for the finance as she'd only recently come out of an insolvency arrangement.

Background

PayPal provided Miss N with a credit account with an increased credit limit of £2,700.00 in February 2021 and £3,700.00 in December 2021.

While Miss N's account was initially provided in March 2019, we've already explained why we're unable to look at Miss N's complaint about matters prior to January 2021 and this decision is solely looking at the decisions to increase Miss N's credit limit in February 2021 and December 2021.

One of our investigators reviewed what Miss N and PayPal had told us. And she thought PayPal hadn't done anything wrong or treated Miss N unfairly in relation to providing the credit limit increases in February 2021 and December 2021. So she didn't recommend that Miss N's complaint be upheld.

Miss N disagreed and asked for an ombudsman to look at the complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss N's complaint.

Having carefully considered everything, I've not been persuaded to uphold the complaint. I'd like to explain why in a little more detail.

PayPal needed to make sure it didn't lend irresponsibly. In practice, what this means is PayPal needed to carry out proportionate checks to be able to understand whether Miss N could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

PayPal says it initially agreed to offer Miss N the limit increases it did after it checked her income and carried out credit searches. And the information obtained indicated that Miss N would be able to make the monthly repayments due for these credit limit increases. On the other hand Miss N says that she shouldn't have been lent to.

I've considered what the parties have said about the limit increases.

What's important to note is that Miss N was provided with a revolving credit facility rather than a loan. This means that PayPal was required to understand whether credit limits of £2,700.00 and then £3,700.00 could be repaid within a reasonable period of time, rather than all in one go. Credit limits of this amount required reasonable monthly payments in order to clear the full amount owed within a reasonable period of time.

For these credit limit increases, it appears as though PayPal placed reliance on Miss N's account having been managed well in the years since her account had been opened. In the first instance I should make it clear that it isn't immediately apparent to me how it would automatically be the case that a borrower could afford a higher amount of credit simply because they might not have defaulted on a lower amount.

That said, PayPal's credit checks did indicate that Miss N didn't have recent difficulties with credit in the form of defaults and county court judgements ("CCJ"). I know that Miss N has referred to exiting an Individual Voluntary Arrangement ("IVA"), But I think this this was sometime before the limit increases had been provided. It's also fair to say that Miss N wasn't too heavily indebted and was making more than the minimum repayment to her existing creditors too.

So Miss N's actions in making larger payments and her repayment record did indicate that she might be able to make the payments on a higher credit limit. Equally, Miss N had not been maxing out the facility and owed just over £1000.00 when the February 2021 limit increase took place and just over £1,100.00 when the December 2021 limit increase took place.

Nonetheless, given the amount of the likely increased monthly payments, I do think that it would have been reasonable and proportionate for PayPal to find out a bit more about Miss N's regular living costs before offering the credit limit increases. As PayPal didn't obtain this information, I've considered the information Miss N has provided with a view to deciding what it might have found out about Miss N's regular living costs had this information been asked for.

Having done so, I don't think that PayPal would have made a different decision even if it had asked Miss N for more information. I say this because the information Miss N has provided about her finances at the time appears to show that when her committed regular living expenses and existing credit commitments were deducted from the funds going into her account, she did have the funds, at the time at least, to sustainably make the repayments due.

It's possible that Miss N's position might have been worse than what it looks like, or that it worsened after the credit limit increases took place. For example, I've seen that she's said that she was receiving credits from her partner in order to pay bills around these times and that they were only able to make the credit they did because they'd taken out a large loan.

I'm sorry to hear that Miss N has found it difficult to make her payments. But it wouldn't be fair and reasonable for me to use hindsight here, or say that PayPal should have known this was the case. Furthermore, PayPal wouldn't have known about Miss N's partner taking loans out in order for existing commitments to have been made either. This is especially as

the available information indicates proportionate checks would more likely than not have shown that Miss N could repay what she could owe at the time the lending decision was made.

So overall while I can understand Miss N's sentiments, I don't think that PayPal treated Miss N unfairly or unreasonably when increasing her credit limit. And I'm not upholding Miss N's complaint. I appreciate this will be very disappointing for Miss N. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding this complaint, I'd like PayPal of its obligation to exercise forbearance and due consideration should it intend to collect on the outstanding balance on Miss N's account and it be the case that she is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm not upholding Miss N's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 25 March 2024.

Jeshen Narayanan
Ombudsman