

The complaint

Miss R complains that PayPal (Europe) Sarl et Cie SCA ("PayPal"), irresponsibly granted her a credit account she couldn't afford to repay.

What happened

In May 2019 Miss R was accepted for an online credit account with PayPal. She was given an initial credit limit of £1,000. There then followed four credit limit increases: in November 2019 to £2,000 in December 2020 to £3,000, in June 2021 to £4,000 and finally in December 2021 to £5,000.

Mrs got into difficulty with repaying her account in April 2023. A payment plan was put in place but unfortunately the account went into default in July 2023.

Miss R says PayPal didn't complete adequate checks when it granted her the credit and later increases and so it failed to properly look into her financial situation.

PayPal said its lending decisions were fair. But it offered Miss R a goodwill payment of £150.

Having looked into the complaint, our investigator explained to Miss R why we would only be able to look into the merits of the credit granted after January 2021. Having done so they thought that PayPal ought not to have granted the third and final credit limit increases. So the complaint I am addressing in this decision is only about the two credit limit increases that took place in June and December 2021.

Having looked into the merits of the complaint on that basis, our investigator recommended that the complaint should be upheld from the time of the credit limit increase in June 2021, when the credit limit was increased from £3,000 to £4,000.

As PayPal didn't agree the complaint has been passed to me for a 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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Miss R's complaint.

PayPal needed to take reasonable steps to ensure that it didn't lend irresponsibly to Miss R. In practice this means that it needed to carry out proportionate checks to make sure Miss R could afford to repay the additional credit she was being given in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Miss R's income and expenditure.

In the early part of the lending relationship, we might think PayPal would have needed to do more if, for example, a borrower's income was low or the amount lent was high. Generally speaking, the longer the lending relationship goes on, the greater the risk of a consumer having a change in their financial circumstances, leading to the lending becoming unsustainable and the borrower getting into financial difficulty. So we'd expect a lender like PayPal to be able to show that it didn't make the decision to lend or continue to lend to a customer irresponsibly.

In this complaint, I agree with our investigator that when granting Miss R her credit limit increase in June 2021, PayPal didn't carry out proportionate checks. Had it done so, it would likely have found that the additional credit wasn't affordable and couldn't be repaid sustainably. I will explain why.

PayPal carried out some checks before granting the limit increase. Miss R had previously confirmed she was not in paid employment, was a tenant and was in receipt of a monthly income of between £1,000-£1,500. Broadly, speaking this seems to have been derived from government benefits, plus some ad hoc payments received from her partner. For the limit increase PayPal relied on how Miss R had been using her account, including how much she paid each month. It also relied on checks it made with a credit agency to look into Miss R's financial situation. It found that Miss R owed around £14,000 in credit overall by way of 5 separate accounts. Her recent payment history was good with no adverse markings on her credit file.

I do think PayPal should have done more in this case to establish whether the increased lending would be affordable. I don't disagree that she had a good payment history with PayPal. But it needed to ensure that the new credit was both affordable and something Miss R would be able to repay sustainably as part of her overall financial situation. I can't see what if any steps it took to find out more about either her sources of income at that point or the level of living costs she was having to meet alongside her credit commitments.

It follows that by not gaining a more detailed understanding of Miss R's financial commitments and her circumstances, I can't say that PayPal's checks leading to its decision to grant Miss R more credit were proportionate.

I can't be sure exactly what PayPal would have found if it had asked but our investigator obtained Miss R's bank statements from around the time of the limit increase to help gain an indication of what that might be. I see that Miss R's main source of income remained at broadly the same level of government benefits as before. But she also continued to receive ad hoc payments coming in from her partner which average out at around £1,300 each month. This is not something I consider can be treated as a stable source of income. Had PayPal carried out checks to establish her level of income, these ad hoc payments would likely have been seen as irregular payments aimed at supporting Miss R in her financial situation. However, Miss R's monthly spending was well in excess of £750 – the figure PayPal had relied on for its affordability calculation.

I am also concerned by the heavy level of reliance on her overdraft. Overdraft use is often an issue of potential concern but when it's being used consistently, with the account rarely if ever going into credit, it's a strong indication that the consumer's financial situation might be deteriorating. Miss R's reliance on her overdraft means that she would be unlikely to have the benefit of having any disposable income available to her each month. The income she told PayPal about wasn't enough to leave her with disposable income. But even with the additional sums PayPal wasn't aware of, Miss R was always in her overdraft and so the existing income wasn't enough to meet her daily financial needs sustainably, let alone the

increased payments that would arise from the new credit limit. As a result, Miss R's financial situation was stretched with a real likelihood that it would deteriorate further.

I therefore agree with our investigator that PayPal failed to properly take into account that the evidence and information they relied on, without making further enquiry, meant it was likely that Miss R would be unable to sustainably manage her new credit limit alongside her other borrowing and day to day living costs.

I would add that given that there was no significant improvement in Miss R's financial situation by the time of the next credit limit increase, in December 2021, I am satisfied that this increase would also have been unsustainable for her.

I therefore don't think PayPal should have granted Miss R the increased credit limit of £4,000 in June 2021.

Putting things right – what PayPal needs to do

- Rework Miss R's account to ensure that from 30 June 2021 onwards interest is only charged on balances up to the credit limit of £3,000 (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made PayPal should contact Miss R to arrange an affordable repayment plan for the account. Once Miss R has repaid the outstanding balance, it should remove any adverse information recorded on Miss R's credit file from 30 June 2021.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss R, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. PayPal should also remove any adverse information from Miss R's credit file from 30 June 2021.†

†HM Revenue & Customs requires PayPal to take off tax from this interest. PayPal must give Miss R a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons I've set out above, I'm upholding Miss R's complaint. PayPal (Europe) Sarl et Cie SCA should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 4 July 2024.

Michael Goldberg

Ombudsman