

## **The complaint**

Miss H complains that PayPal (Europe) S.À r.l et Cie, S.C.A. ("PayPal") lent to her in an irresponsible manner. And she also complains that PayPal has failed to treat her appropriately when she told the firm she was facing financial difficulties.

## **What happened**

Miss H opened a credit account with PayPal in January 2018 with an initial credit limit of £2,000. Her credit limit was increased to £2,500 in September 2019, and to £3,000 in March 2020. PayPal reduced Miss H's credit limit to £2,900 in April 2021.

Our investigator has explained why we are only able to look at the parts of Miss H's complaints that are about things that happened after January 2021. So, in this decision, I will only be considering the reduction in Miss H's credit limit in April 2021, and how PayPal has run her account since that date, including how it has responded to her requests for support due to her financial difficulties.

PayPal says that it reduced Miss H's credit limit as part of a review of all its customer's accounts. It said that it was concerned by some negative markers on Miss H's credit file. But it says it was unable to reduce her balance further due to her outstanding credit and the likelihood of further purchases having been made, but not yet applied. It said that it didn't want to place Miss H in a position where she inadvertently exceeded her new credit limit.

Miss H appears to have operated her account within the terms of her agreement with PayPal until May 2023 when she missed a repayment. She discussed her situation with PayPal who asked her to provide some information about her normal income and expenditure. The information Miss H provided showed she had no disposable income each month that she could use to make any repayments. PayPal asked Miss H for some further information, but she didn't respond to its requests. In December 2023 Miss H complained to PayPal about the lending.

PayPal told Miss H that it was satisfied it had fairly assessed whether the credit was affordable for her before it agreed the account. And it provided her with information about organisations that could help her if she was finding it difficult to manage her money. Unhappy with that response Miss H brought her complaint to us.

Miss H's complaint has been assessed by one of our investigators. He didn't think PayPal's decision to reduce Miss H's credit limit had been unreasonable. And he thought PayPal had acted appropriately when Miss H said she was facing some difficulties with her finances. So the investigator didn't think the complaint should be upheld.

Miss H didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

## 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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Miss H and by PayPal. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

As I have explained earlier, in this decision, I am only considering what happened when PayPal reduced Miss H's credit limit in April 2021, and what has happened since then in terms of how PayPal has operated her account.

The rules and regulations at the time required PayPal to carry out a reasonable and proportionate assessment of whether Miss H could afford to repay what she owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so PayPal had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Miss H. In practice this meant that PayPal had to ensure that making the repayments wouldn't cause Miss H undue difficulty or adverse consequences. In other words, it wasn't enough for PayPal to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Miss H.

Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether PayPal did what it needed to before agreeing to lend to Miss H.

The matters that I am considering here are a little different to a normal lending decision. By early 2021 Miss H had been using the credit facility offered by PayPal for over three years. In that time she had managed her account well, and maintained the contractual repayments. But by that time she had a relatively large balance on her account that was approaching her agreed credit limit.

As well as making checks when a consumer asks to borrow, a lender offering an ongoing credit facility such as a credit card, or the credit account in this case, needs to ensure that a product remains affordable for the consumer over its lifetime. So I think it was correct that, in early 2021, PayPal reviewed Miss H's financial circumstances, and how she had been using her account.

The results of the checks that PayPal received in early 2021 suggested that Miss H had faced some problems managing other credit facilities in 2020. Whilst that might not have been entirely unexpected given the economic disruption caused by the pandemic, and it appeared that towards the end of the year Miss H had started to get her finances back on track, it still reasonably caused some concerns to the lender.

But PayPal needed to continue to treat Miss H fairly. She hadn't faced any problems meeting her contractual arrangements on her PayPal credit account. So it might have been unreasonable to ask her to immediately repay what she owed. But PayPal needed to take steps to ensure that Miss H didn't take any further borrowing that she might have been unable to afford. And PayPal needed to be mindful that Miss H might have made some transactions that hadn't yet appeared on her account.

So I think it was reasonable for PayPal to reduce Miss H's credit limit, but to leave her a small margin for any purchases she had already made. Had that not been done, it would have been likely that Miss H would have inadvertently exceeded her credit limit. And that might have unreasonably caused negative information to be recorded on her credit file.

Taking all that into account I don't think PayPal was wrong to reduce Miss H's credit limit to £2,900 in April 2021. And I don't think it was unreasonable for PayPal to allow Miss H to retain the credit she was already using, and to repay that in line with her normal arrangements.

Miss H continued to manage her repayments well until May 2023. At that time she told PayPal that she was facing some problems with her finances. But she said that she expected to be able to make her repayments the following month without undue problems. Later that month however Miss H said she would struggle to make her contractual repayments. In line with its responsibilities as a reasonable lender, PayPal signposted Miss H to some organisations that might be able to help her. And it applied some breathing space to her repayments whilst it discussed the best way forwards. PayPal asked Miss H to provide details of her income and expenditure.

The information Miss H provided showed that it would be unlikely she could repay what she owed to PayPal in a sustainable manner – that is from her normal income and without relying on other borrowing. So PayPal asked Miss H for some further information. It seems that the relationship between Miss H and PayPal then broke down, and Miss H failed to provide the requested information.

I've thought carefully about how PayPal responded to Miss H when she explained she was facing problems managing her repayments. At that time the regulator would expect PayPal to take steps to ensure that Miss H was treated fairly, with forbearance and with due consideration. It provided firms with a number of examples of this sort of behaviour including the consideration of reducing or waiving future interest charges, allowing the payment of arrears to be deferred, or accepting token payments for a reasonable period of time.

But it is my understanding that the regulator's guidance isn't intended to leave debts outstanding for an indefinite period of time. Instead the requirement for lenders to show forbearance and due consideration to consumers who are facing financial difficulties is to allow a reasonable period of breathing space for consumers, facing an unexpected fall in their disposable income, to review their options. I haven't seen anything that makes me think that PayPal has treated Miss H unfairly.

I appreciate that my decision will be disappointing for Miss H. I am not able to consider what happened when she first opened the credit account. But I think PayPal acted fairly when it reduced her credit limit in 2021, and in the way it has dealt with her financial difficulties more recently. So I don't think this complaint should be upheld.

### **My final decision**

For the reasons given above, I don't uphold the complaint or make any award against PayPal (Europe) S.À r.l et Cie, S.C.A.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 8 July 2024.

Paul Reilly  
**Ombudsman**