

The complaint

Miss J complains that PayPal UK Ltd irresponsibly allowed her to open a credit account which was unaffordable.

What happened

Miss J says she opened the PayPal account in July 2021 but at the time was heavily in debt. She says insufficient checks were carried out on her application and the lending decision was irresponsible as well as unaffordable. Miss J says she had a gambling habit at the time of the lending and had other credit card accounts which were at the credit limits. She would like any interest refunded and any adverse information removed from her credit file.

PayPal says it carried out appropriate checks on Miss J's application. It says she told it she had an income of between £1,500 and £2,000 a month. It also says it calculated her disposable income at about £1,250 a month and that there was no recent adverse information on her credit file. PayPal says it has now written this debt off.

Miss J had brought her complaint to us, and our investigator upheld it. The investigator thought further checks ought to have been carried out which would have shown Miss J's other debt and that her income was significantly less than she reported to PayPal. The investigator recommended PayPal rework the account by refunding interest and removing any adverse information from Miss J's credit file.

PayPal says the credit was affordable and it will not either refund interest or amend the credit file.

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.

Having done so I have come to the overall view that I uphold this complaint.

Lenders and credit providers must carry out reasonable and proportionate checks on any credit or lending application. There are no set rules on what those exact checks are, and they will of course vary depending on the type as well as amount of any credit facility or lending. I don't need to set out the rules about such lending here as PayPal will be familiar with them.

I have looked carefully at the information PayPal has provided us with. I can see that checks were carried out on Miss J's credit file which showed she had no defaults recorded on it and that PayPal did carry out affordability calculations. But I don't think those checks went far enough for the reasons I will explain.

I have not seen any evidence from PayPal that it checked Miss J's income. I appreciate that Miss J declared she was earning between £1,500 and £2,000 a month but I would have expected PayPal to have carried out some checks to verify that as it approved what I think

was a relatively large credit facility of £2,000.

I am not suggesting PayPal ought to have checked Miss J's bank statements, but they would have provided evidence of income. And I can see from looking at them that they show Miss J's income was significantly lower than the amount she told PayPal she earned. Those statements also showed a substantial number of gambling transactions which I think would have caused PayPal some concern when assessing the application if it had seen them. It is of course up to Miss J and any other borrower to decide what they spend money on. But in this context, I am satisfied any lender ought to have had some concerns about what the bank statements showed and that the account was mainly overdrawn.

I am satisfied that having looked at Miss J's credit file that she had existing debt and open credit facilities. I can see that she had utilised the credit limit on at least one credit card account for example and that her outgoings were higher than calculated by PayPal. I am satisfied that if more detailed checks had been carried out here, then it unlikely PayPal would have or ought to have approved the lending.

I don't think the lending was sustainable and can see that it was not, as Miss J was unable to repay her debts. I can also see that PayPal has agreed to write off the debt.

Putting things right

PayPal should rework this account in the usual way. It should refund any interest Miss J has paid and deduct it from the balance she owes. I accept there is unlikely to be a balance owing to Miss J and so I don't need to order the usual 8% simple interest payment to her. I also don't need to direct a repayment plan be agreed as PayPal has fairly agreed to write off this debt. If the reworking of the account does result in a balance owing, then PayPal should pay 8% simple interest from the payments to settlement. And it should provide the usual certificate of deduction of taxation in accordance with His Majesty's Revenue and Customs rules.

I appreciate PayPal says it would be unfair to remove adverse information from Miss J's credit file. But I am satisfied that the fairest approach in this case would be for any adverse information about this account be removed from Miss J's credit file. I say that as there will not be an agreed repayment plan here and that normally we would direct that information be reported until the plan has been completed. And I think that as far as possible Miss J should be put back in the position she would have been in before the lending decision, which means in this case by removing the adverse information.

My final decision

My final decision is that I uphold this complaint and direct PayPal UK Ltd to rework Miss J's account as set out and remove any adverse information about this account from her credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 7 September 2024.

David Singh
Ombudsman