

The complaint

Miss K complains about PayPal's (Europe) Sarl et Cie SCA ("PayPal") decision to lend to her.

What happened

I sent Miss K and PayPal my provisional findings on this complaint on 8 January 2025. A copy of that decision is attached and forms part of this final decision.

I explained why I was planning to partially uphold Miss K's complaint and asked both parties to let me know if they had anything to add.

Miss K responded and to summarise, she said:

- she was concerned we had a copy of her bank statements when she didn't provide them to this service and she didn't provide permission for this service to obtain them. She said her bank statements showed clear indicators of coercion and control including frequent transfers between her accounts and joint accounts controlled by her ex-partner and a lump sum payment to PayPal followed by immediate spending.
- The decision didn't mention the default that PayPal recorded and it didn't provide notice of the default in advance. It should have done this through her online account and she didn't receive the notice. PayPal sent the default notice to her previous address and she couldn't share her new address due to safety reasons. In sending the default notice to her previous address, it significantly impacted her financial position. There was no proof it sent the default notice and it should provide proof of this. It reported different account statuses each month to credit reference agencies, which created confusion and damaged her credit profile.
- Her ex-partner retained access to her account after she left and made purchases for items such as baby shower gifts, toiletries etc. as an illusion of support. The purchases were made to maintain control over Miss K's financial situation, which left her unable to break free from the cycle of abuse.
- She disagreed that disability payments should be used to pay for debt.
- The provisional decision didn't fully account for the financial abuse present, her mental health conditions and her personal circumstances.
- The conclusion that PayPal hadn't carried out reasonable checks, but their decision was reasonable was flawed. Bank statements couldn't be used retrospectively to justify affordability.
- She agreed with my findings that PayPal didn't act reasonably when the credit limit was increased to £3,500. However, Miss K said that it should have carried out further checks based on the information she provided it about her mental health prior to approving the credit limit increase. She said she was highly reliant on high-cost credit by June 2022.
- PayPal should write off the entire debt, remove all adverse credit information and refund all interest, charges and fees applied to the account.

PayPal agreed with the provisional 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.

I've read and considered the points that Miss K has raised in response to the provisional decision and I note that she has made a number of different complaint points. I've only concentrated on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it – but because I don't think I need to comment on it in order to reach what I think is the right outcome. The rules of this service allow me to do this.

I will not reiterate the contents of my provisional decision, instead I will focus on any new points that I think are relevant that Miss K has made in response to my provisional decision.

Our investigator explained to Miss K that she would be obtaining a copy of Miss K's bank statements. Miss K didn't object to this and also previously told this service that she would be obtaining them, but didn't send them. I considered it necessary to review the bank statements for the reasons already explained in my provisional decision.

Miss K has said her bank statements showed frequent transfers between her accounts and joint accounts. However, Miss K's bank statements actually demonstrate frequent transfers into her account from the joint account and her ex-partner's account. There is no consistent pattern of payments being made out of her account to other accounts. And where transfers out of the account have taken place, the funds transferred into Miss K's account are generally for considerably more. I can also see payments being made to, who I assume to be, members of Miss K's family and payments for holidays from and to the account. So, while Miss K says the account activities show control and coercion by another party, the available information doesn't persuade me that is the case.

I acknowledge that Miss K says that disability payments shouldn't be used to pay for debt. But it wouldn't have been fair and reasonable for PayPal to have declined Miss K's application on the basis that she was in receipt of some benefits. A lender is entitled to consider benefits as a prospective customer's income and it isn't unreasonable for a lender to lend to an individual in receipt of benefits provided the payments are affordable. In addition, Miss K's bank statements show she wasn't restricted on how she used the money she received in benefits payments.

Miss K has mentioned that her ex-partner had access to her account after she left the house and he was making payments to look like he was being supportive. Some of the purchases mentioned in my provisional decision were purchased in October 2023. Miss K has previously told this service she had access to some of the items and in response to the provisional decision has provided a transcript which she says is between her and PayPal. This is from late October 2023. As part of this transcript, Miss K says she is having payment difficulties. She says, *"My partner lost his job this morning and I'm on maternity pay."* She went on to tell PayPal about her mental health conditions and queried why it continued to increase her credit limit.

However, PayPal had only increased the credit limit once in June 2022. Whilst Miss K now says she didn't have access to any of the items purchased with the funds from the PayPal account, I'm not persuaded that PayPal would have known this given Miss K told PayPal she still had a partner at the time and that she was in receipt of maternity pay. I don't think there was anything in what she said which ought reasonably to have led PayPal to have determined that Miss K was being coerced or that someone else was using the account instead of her.

My provisional decision did mention the information PayPal reported to the credit reference agencies. Miss K has mentioned a default that has been reported by PayPal in mid-2024.

However, Miss K referred her complaint to this service in late 2023, prior to the default being recorded on her account. If Miss K is unhappy about the way in which the default was applied or the communication sent by PayPal to let her know it had applied a default, she will need to complain to PayPal about this in the first instance, as this part didn't form part of the complaint Miss K referred to this service in 2023.

Miss K has said that PayPal should write off the debt, remove all adverse credit information and refund all interest, charges and fees applied to the account. Having reviewed the additional information Miss K has provided, whilst I'm sorry to hear about the circumstances Miss K has told this service about, I'm not persuaded to depart from the findings reached in my provisional decision. And so, it follows that PayPal should put things right as set out in my provisional decision.

My final decision

My final decision is that I uphold Miss K's complaint. PayPal (Europe) Sarl et Cie SCA should do the following:

- Rework Miss K's account balance so that all interest, fees and charges applied to it after the credit limit was increased in June 2022 are removed.

AND

- If an outstanding balance remains on the account once these adjustments have been made PayPal should contact Miss K to arrange a suitable repayment plan. Miss K is encouraged to get in contact with and cooperate with PayPal to reach a suitable agreement. PayPal can also reduce the account balance by the amount of the refund if it considers it appropriate to do so, as long as doing so wouldn't leave Miss K over the limit.

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 K along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. PayPal can also reduce Miss K's balance by the amount of the refund if it considers it appropriate to do so.

† HM Revenue & Customs requires PayPal (Europe) Sarl et Cie SCA to take off tax from this interest. PayPal must give Miss K a certificate showing how much tax it has taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 10 March 2025.

Provisional decision

I've considered the relevant information about this complaint.

Having done so, I'm intending to reach a different outcome to our investigator for the reasons I've explained in this provisional decision.

The deadline for both parties to provide any further comments or evidence for me to consider is 22 January 2025. Unless the information changes my mind, my final decision is likely to be along the following lines.

If PayPal (Europe) Sarl et Cie SCA accepts my provisional decision, it should let me know. If Miss K also accepts, I may arrange for the complaint to be closed as resolved at this stage

without a final decision.

The complaint

Miss K complains about PayPal's (Europe) Sarl et Cie SCA ("PayPal") decision to lend to her.

What happened

Miss K entered into a credit agreement with PayPal in October 2021. The credit limit provided to Miss K was £2,500. In June 2022, the credit limit was increased to £3,500. In November 2022, Miss K requested that her credit limit was increased, however PayPal declined the application.

In October 2023, Miss K told PayPal she had income difficulties. PayPal told Miss K that it couldn't respond to her complaint within the period it had intended to. So, it said Miss K could refer a complaint to this service.

Unhappy, Miss K referred her complaint to this service. She said PayPal told her she could make a payment of £1 per month and it would default her account. She said she had explained her personal circumstances to PayPal a number of times, PayPal had lent irresponsibly and the debt was never affordable for her. She said PayPal had allowed her ex-partner to run up huge debts over a short period of time.

Following this, PayPal issued a response to Miss K's complaint in January 2024. It said Miss K hadn't raised any complaints about its lending decisions previously, but it was willing to implement a plan whereby Miss K paid it £1 per month, to freeze interest and fees and to cease collection efforts. It said when Miss K applied for an account, she told PayPal she was employed full time, she was a homeowner and she had no monthly expenditure. It also said Miss K's credit file showed no defaulted accounts in the two years before her application was made and there were no other indications of any over-indebtedness. PayPal said it couldn't see any information to suggest someone else had access to Miss K's account. It also accepted that it shouldn't have lent Miss K any further amounts through its pay in three product and so agreed to write off £1,152.47, which represented seven loans that were granted after Miss K told it she was experiencing financial difficulties.

Miss K said she couldn't contact PayPal previously because her ex-partner wouldn't allow her to. Miss K said she would be willing to pay 50% of the amount she owed under an affordable monthly plan. She said the whole balance of the pay in three account should be removed and she was earning half her declared income.

PayPal reviewed Miss K's further comments and said Miss K had made no contact with it since it issued its final response and neither had she provided any further information. It said Miss K needed to provide some further information so it could consider her complaint further. It also said Miss K went to court in February 2021 to stop her ex-partner interfering with her life, but she took out the account in October 2021 and the purchases made using the account were sent to the address it had on file. It said it had no information to support someone else was using the account, a lot of the purchases were for new baby items and that Miss K had confirmed she had a baby during the time. PayPal reviewed the matter again and said it would apply a cease and desist. It said it would no longer pursue the debt, but it was obliged to report it to credit reference agencies ("CRAs"). It also said it would end its business relationship with Miss K to stop her from getting into further debt.

Miss K said she didn't think it was fair for PayPal to report any adverse information to her credit file as she didn't have any of the goods, or spend any of the money.

Our investigator looked into the complaint and said that PayPal's pay in three agreements were exempt from regulation as they were interest free agreements which were due to last less than 12 months. Miss K accepted that we couldn't consider a complaint about these

accounts. Following this, PayPal said it would cease and desist on all lending including all the pay in three agreements. It said it wouldn't pursue the debts, but it would report the debts to CRAs.

Our investigator looked into PayPal's decisions to lend to Miss K. She said she didn't think that PayPal had done enough checks and upheld the complaint. She recommended PayPal refund all the interest and charges applied to Miss K's account and remove any adverse information.

PayPal agreed. But Miss K disagreed. She said she wanted the outstanding balance reduced to £1,000. She later said she wanted the outstanding balance reduced to 50% and then 30%, with the account removed or marked as settled from her credit file. PayPal said it would accept Miss K's offer to pay 30% of the balance, but it wouldn't amend the credit file. Miss K has finally said the only fair solution in this case is for PayPal to write off the debt.

Miss K remains unhappy with this so, the case has been passed to me to decide.

As part of this decision, I'm not considering Miss K's complaints about the pay in three agreements she took out. This is because those agreements are unregulated and so this service doesn't have the power to consider a complaint about them. Miss K has accepted this, so I won't comment on those agreements further as part of this decision.

What I've provisionally 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.

I've read and considered the whole file and acknowledge that Miss K has raised a number of different complaint points. I've concentrated on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it – but because I don't think I need to comment on it in order to reach what I think is the right outcome. The rules of this service allow me to do this.

We've set out our approach to unaffordable/irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach while deciding Miss K's complaint.

Before deciding to lend, PayPal needed to carry out reasonable and proportionate checks, to satisfy itself that Miss K would be able to repay what she borrowed in a sustainable way.

A proportionate check is dependent on a number of factors including – but not limited to – Miss K's particular circumstances (e.g. her financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit she was looking to obtain. The checks should be "*borrower focused*" and PayPal needed to ensure the payments under the lending agreement wouldn't cause Miss K any undue difficulty. There may also be other factors which could influence how detailed a proportionate check should have been – such as any indications of borrower vulnerability and any foreseeable changes in future circumstances.

Miss K was given a credit facility where there was an expectation that she'd repay what she borrowed plus the interest due within a reasonable period of time. The relevant rules, regulations and guidance in the period PayPal lent to Miss K don't set out what a reasonable period of time is. So, I think it's important to note that a reasonable period of time will always be dependent on the individual circumstances of the borrowing.

I've kept all of this in mind when thinking about whether PayPal did what it was required to do before agreeing to lend to Miss K. When deciding to lend to Miss K, PayPal says that Miss K provided income details on her application and she passed its affordability checks, which were based on external credit bureau data.

The initial application in October 2021 with a £2,500 limit approval

The application shows Miss K had confirmed she was working full time and she had a monthly net income of between £3,001 and £3,500. Miss K also confirmed that her monthly living expenses and her net monthly mortgage expenses were £0. However PayPal made an allowance for some expenses and determined that Miss K's disposable income was £3,251 a month.

PayPal has provided evidence to show what the credit search showed. At the time of lending, the credit search obtained by PayPal confirmed that Miss K had no defaults reported in the last 24 months and no delinquent accounts. It also showed a low debt to income ratio. As the information showed Miss K's disposable income was sufficient and she had no adverse information reported to her credit file in the previous 24 months, Miss K's application fell within PayPal's lending criteria.

I've reviewed the information PayPal obtained about Miss K before lending to her. Having done so, I think PayPal should have carried out further checks before deciding to lend to Miss K. I say this because PayPal said Miss K had told it she was a homeowner with a mortgage. However, Miss K didn't declare any monthly mortgage expenses as part of her application. I think this in itself should have prompted PayPal to carry out further checks to determine whether it was fair to lend to Miss K.

I've thought about what a proportionate check could look like considering the terms of the agreement. In this case, the agreement didn't have an end date, the purpose of lending was to obtain goods and the highest minimum repayment towards the account would have been around £125 per month. However, given the account needed to be repaid in a reasonable time, I think PayPal should have expected Miss K to make payments in excess of £125 if she maxed out her credit limit.

In light of all this, I think PayPal should have asked for information about Miss K's expenditure, especially given that Miss K declared she had no expenditure despite also saying she had a mortgage.

We've obtained bank statements which demonstrate Miss K's circumstances at the time she applied for the lending. To be clear, I'm not saying that PayPal was required to obtain these before lending to Miss K, I'm simply saying I think it would have been reasonable for PayPal to ask Miss K about her expenditure at the time of lending. Given the amount of time that has now passed since the lending was approved, I've reviewed Miss K's bank statements because I think the information they contain is what is needed to reconstruct what a proportionate check may have looked like and to confirm what Miss K's expenditure likely was at the time.

I also accept that if PayPal had obtained information from Miss K about her expenditure at the time the agreement was taken out, this may have shown something different. However, in the absence of anything else from PayPal to demonstrate what any other checks would have shown, I think it's reasonable to place considerable weight on the bank statements as an indication as to what Miss K's circumstances likely were at the time.

Having reviewed the bank statements provided to this service, I'm satisfied Miss K had enough disposable income to sustainably make the repayments under the agreement. Miss K's bank statements show that the income she received each month, including benefits, was on average around £2,440 in the three months before she made the application to PayPal. Her average expenditure during this period of time was around £930. This included all payments to lenders, standing orders, credit cards and direct debit payments. Her disposable income at the time was around £1,510.

This information, coupled with there being no adverse information showing on Miss K's credit file, leads me to think that even if PayPal had done further checks, it was fair for PayPal to conclude Miss K would be able to repay the amount it lent to her within a reasonable period of time. So, I don't think PayPal made an unfair lending decision when it provided Miss K with a credit agreement that had a limit of £2,500.

I note that Miss K has recently said her benefit payments shouldn't be taken into account. However, these were funds that Miss K received each month and whilst Miss K says these funds were for a specific purpose and to pay for specific things, she was free to use the money how she chose. So, I don't think it's unfair to take these payments into account.

I've gone on to consider the credit limit increase that took place in June 2022.

The credit limit increase in June 2022 to £3,500

Taking into account the factors I've already mentioned above, I've considered whether it was fair for PayPal to lend to Miss K in June 2022.

I have considered that PayPal has told this service that it obtained additional details when deciding to approve the credit limit increase. It said this showed Miss K on average paid around £500 a month towards her account balance, which was in excess of the £120 minimum payment she was required to pay. PayPal also obtained further details on Miss K's outstanding credit commitments. These showed her minimum monthly payments due to other lenders totalled around £850, she had 16 active accounts but she didn't have any defaults showing on her credit file. It also suggested that Miss K was a homeowner as her outstanding credit was around £250,000. The check also showed she had a good bureau score and the debt to income ratio was 20% - which it said was a good score.

However, PayPal also said it used the same details about Miss K's income and expenditure that it had obtained at the time it decided to lend to her in October 2021. Whilst I can understand why it did this, I've already explained that I don't think it carried out proportionate checks when it made a decision to lend to Miss K in October 2021. So it follows that I don't think it carried out proportionate checks when it made a decision to increase Miss K's limit.

I've considered Miss K's bank statements again in the three months in the lead up to the credit limit being increased. Having done so, whilst Miss K had an average disposable income of around £200 in the lead up to the credit limit being increased, she was also taking out high cost credit loans and lines of credit. For example in April 2022, Miss K made payments of around £4,000 to short term lenders and in May 2022, she took out a £15,000 loan, although I understand this was taken out to consolidate some of her outstanding debts. This didn't consolidate all of them though.

I also can see that Miss K's PayPal statement showed she had only been making around the minimum payment towards her monthly balance since the account was opened until around April 2022 when she paid around £2,700 off her account balance. However, she also spent a further £2,700 that month. I can see that Miss K's account balance was close to the limit since it opened and until the credit limit increase. I think this should have been another indicator for PayPal to carry out further checks before lending to Miss K.

If PayPal had carried out further checks before agreeing to increase Miss K's credit limit, I think it would have seen that Miss K was relying on high cost credit to maintain repayments to her creditors, which was unsustainable. So, I don't think it was fair for PayPal to increase Miss K's credit limit in June 2022 and I think if it had obtained further information, it would suggest that Miss K wouldn't be able to repay the amount she borrowed sustainably or within a reasonable amount of time.

Did PayPal act unfairly or unreasonably in any other way?

Miss K has disclosed to this service that she obtained a restraining order against her ex-partner in January 2021 who was abusive towards her. The order was varied in February 2021 and was due to expire in February 2022. Miss K says she can't recall when she returned to her ex-partner. However, there's nothing that has been provided to show there was a breach of the restraining order, so it is reasonable to conclude Miss K complied with the terms of the legal restraining order that she requested and did not return her partner whilst the restraining order was in force. This would mean that when PayPal agreed to lend to Miss K in October 2021, Miss K would not have restarted a relationship with her ex-

partner. I also don't think at the time the lending decisions were made that there was anything to suggest to PayPal that Miss K was being coerced into the borrowing or that she had significant personal reasons which meant she didn't have control of her finances and it shouldn't lend to her.

In July 2024, a third party charity confirmed to this service that Miss K had left the family home in March 2023 and she was in emergency accommodation. However, Miss K hasn't provided this service with her new address details and as PayPal has pointed out, the purchases made since March 2023, and after Miss K complained to it in October 2023, appear to be for things such as a baby shower, toiletries, bathroom items and clothing. These have been delivered to Miss K's previous address. Miss K confirmed she had a baby after she got back with her ex-partner. So, I think on balance it's more likely than not that Miss K has had access to the items and I don't think it would have been apparent to PayPal that Miss K, as she has suggested, was not making the transactions or receiving some benefit from the items purchased.

Miss K has said that her ex-partner was making all the purchases on her various accounts and she didn't have any control over her finances. Miss K didn't provide the bank statements to this service, as she said they wouldn't show anything apart from money being transferred out of her account to another person's. This isn't demonstrated by the extensive bank statements provided by the bank account provider. The bank statements that this service obtained from Miss K's bank account providers suggest that Miss K was transferring money between her own accounts and her main account received numerous deposits from her ex-partner and money into the account from the joint account. There isn't anything persuasive to suggest from the bank statements that all Miss K's money was being transferred out to another person's account to control.

I have also read through the medical notes that Miss K has sent us and I'm sorry to hear about the ongoing impact of her ex-relationship on her. I have no doubt that Miss K has had a strained history with her ex-partner and she has mentioned she has been coerced and controlled. However, I'm required to look at the actions of PayPal in this case. And having done so, I don't consider that PayPal acted unfairly or unreasonably by lending to her. I don't think there was anything in the information that PayPal could have obtained, that suggested Miss K was not in control of her funds or that the ongoing purchases she was making weren't for her own benefit. I also haven't seen anything that suggests Miss K raised these issues with PayPal during the lending relationship.

What should PayPal do to put things right?

I'm minded to say that PayPal should refund all interest and charges Miss K paid above the £2,500 limit from June 2022 onwards. If this results in a positive balance on the account, this amount should be refunded to Miss K with applicable interest. If this results in a balance owing to PayPal, it should work with Miss K to reach a suitable repayment plan and if she is suffering from financial difficulties, it should treat her positively and sympathetically.

Miss K has suggested various ways in which she would like the balance settled. PayPal has said it will cease and desist on all the different lending PayPal has provided to Miss K. Amounts ranging from her paying 50% to 30% or £1,000 in settlement of the account have been proposed by Miss K. But Miss K is only willing to pay an amount, if PayPal agrees to remove the account from her credit file or mark it as settled. PayPal has a duty to report the account factually to the CRAs. In this case, the information PayPal has reported about the way the account has been managed is correct. So I don't think PayPal needs to remove the account from Miss K's credit file, however it should amend the outstanding balance once the interest and charges are refunded to the account.

If Miss K would like to accept any of the offers that PayPal has agreed to, such as reducing her balance to 30% without removing adverse information from her credit file but marking the account as settled, she'll need to contact PayPal directly about this. Alternatively if she now

wishes to accept any of the offers, this service would be happy to communicate Miss K's acceptance to PayPal. It would be down to PayPal to decide whether those offers remain available.

My provisional decision

My provisional decision is that I intend to uphold Miss K's complaint. I'm minded to instruct PayPal (Europe) Sarl et Cie SCA to do the following:

- Rework Miss K's account balance so that all interest, fees and charges applied to it after the credit limit was increased in June 2022 are removed.

AND

- If an outstanding balance remains on the account once these adjustments have been made PayPal should contact Miss K to arrange a suitable repayment plan, Miss K is encouraged to get in contact with and cooperate with PayPal to reach a suitable agreement. PayPal can also reduce the account balance by the amount of the refund if it considers it appropriate to do so, as long as doing so wouldn't leave Miss K over the limit.

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 K along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. PayPal can also reduce Miss K's balance by the amount of the refund if it considers it appropriate to do so.

† HM Revenue & Customs requires PayPal (Europe) Sarl et Cie SCA to take off tax from this interest. PayPal must give Miss K a certificate showing how much tax it has taken off if she asks for one.

Sonia Ahmed
Ombudsman