

The complaint

Mr F through his representative complains that PayPal (Europe) Sarl Et Cie Sca ("PayPal") approved a credit account for him in 2018 when he could not afford it and then approved a series of credit limit increases irresponsibly.

What happened

Mr F took a PayPal Credit account in September 2018 and the initial credit approved for him was £2,500. It was a revolving credit product, similar to a credit card, and was attached to Mr F's PayPal account. Mr F was able to use it to make online purchases (up to the agreed credit limit) and he was required to pay at least the minimum repayment sum each month.

Three credit limit increases were approved, but as Mr F will know from our investigator's previous view, due to territorial jurisdiction issues we can only look at the one approved by PayPal in August 2021.

The one increase I can look at was the increase from £4,500 to £5,500 in August 2021. Recently, the account was over its limit and in arrears. On 28 September 2024 the balance was £5,986.

After Mr F's representative had complained, PayPal issued its final response letter (FRL) in January 2024 in which it did not uphold his complaint in relation to the irresponsible lending. It considered that it had offered forbearance to Mr F after he had told PayPal he was in financial difficulties on 5 July 2023.

Mr F referred his complaint to the Financial Ombudsman Service. After the parameters of the complaint had been established, one of our investigators looked at the complaint and did not think that PayPal had done anything wrong.

Mr F's representative disagreed and despite receiving follow-up emails from the investigator after she had reviewed copy bank account statements from Mr F, her opinion remained the same. The unresolved complaint was passed to me to decide.

After I had reviewed the complaint I asked Mr F for additional information surrounding his finances. Then on 6 December 2024 I issued a provisional decision in which I gave reasons as to why I thought that the complaint should be upheld in part. That is duplicated here for ease of reading.

What I provisionally decided on 6 December 2024 and why

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 Mr F's complaint.

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

PayPal has explained that it took key information from Mr F when he applied in 2018 including identity and residential status and net monthly income plus expenses.

PayPal did eligibility, creditworthiness and affordability checks using one, sometimes two, credit reference agencies (CRAs). It obtains details of the existing financial commitments. PayPal says this may differ from a personal credit file search.

PayPal's records about Mr F in 2018 are that he declared he was self-employed, a homeowner with a mortgage. His monthly income was between £2,000 and £2,500 each month and his expenditure was approximately £1,000 each month. It used the mid-range figures in its assessments. It determined Mr F had a monthly disposable income of £1,250.

The CRA information indicated that Mr F was not overindebted, the debt to income ratio was satisfactory and he had no defaulted accounts in the two years leading up to this application. It has explained:

As for the credit limit increases, our decision to offer these was based on internal rules about their repayment history with PayPal and also how they managed their credit commitments using external or CRA data, such as their credit score and debt to income ratio. These are overlaid with our specific rules and eligibility requirements that they must meet at the time of the increase.

PayPal has said that Mr F had satisfied those requirements before each credit limit increase. PayPal has told us that Mr F had the ability to manage his credit limit online. Mr F had adapted his personal preferences to receive credit limit increase offers and had elected that these were accepted when offered.

In August 2021, PayPal has informed us that the outstanding balance on the account was £4,273 on an existing credit limit of £4,500. Mr F had regularly paid more than the minimum payment expected (£206 average figure) by repaying an average of £436 each month.

In August 2021, PayPal's CRA search indicated that he had a mortgage and at least two other revolving credit accounts, and his monthly minimum repayment to other creditors was £507. His debt to income ratio was 64% whereas in January 2020 the PayPal records show it was 35%.

PayPal had the £507 figure plus Mr F's average monthly repayment amount from its records to its own PayPal credit account as around £436. It knew the outstanding balance on the PayPal account and so that minimum repayment going forward was going to have to be at least £206 assuming the balance remained the same. And PayPal knew that.

On an income figure of £2,000 to £2,500, even if PayPal had used the mid-range figure of £2,250, then the credit limit increase would have looked reasonable. However, the debt to income ratio figure had increased a lot since Mr F had first taken the PayPal account. And I consider that 64% is a relatively high percentage and ought to have been checked. Plus, from the records I have, it seems that Mr F's income was not checked in August 2021. I think that for both reasons, as a minimum, further verification of the income ought to have been done as between 2018 and 2021 it was likely Mr F's income had changed.

So, I have used the information I have to look to see what it is that PayPal would have discovered if it had checked Mr F's income.

Having reviewed the two sets of bank statements I have from Mr F for the period leading up to August 2021, I can see that Mr F earned about £1,100 each month and had two telephone accounts paid for by his business. He was self-employed as PayPal had been informed. The joint account into which Mr F paid £650 each month shows that his partner did the same and from that the mortgage, council tax, a sum to one finance company and other bills were paid.

So, in relation to Mr F's personal account into which his wages were paid, from his £1,100 each month he had to pay the £650 to that 'bills account', at least £206 each month calculated minimum repayment to the PayPal credit account and £507 for his other credit commitments as calculated by PayPal. These figures show that Mr F was not able to afford this: £650 + £507 + £206 = £1,363.

It follows that by not gaining a more detailed understanding of Mr F's financial commitments and his circumstances, I can't say that PayPal's checks leading to its decision to grant Mr F more credit were proportionate. Had it done so, it would have seen Mr F's lower income and that it was likely that he would be unable to sustainably manage the new credit limit alongside his other borrowing and day to day living costs. I therefore don't think PayPal should have approved Mr F for the increased credit limit of £5,500 in August 2021.

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.

Mr F's representative wrote to us to say that Mr F accepted the provisional decision outcome and had no more to add.

PayPal responded with a query about the detail of the redress wording which I clarified by email to PayPal on 23 December 2024. I extended the reply date for a further week until Monday 30 December 2024. That clarification is included in the redress section below.

Considering I have received no further submissions then I see no reason to depart from the findings and the outcome I came to in my provisional decision (duplicated earlier in this decision). That reasoning is repeated here.

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Putting things right

PayPal should EITHER do as below:

- Rework Mr F's account to ensure that from the date of the August 2021 credit limit increase the onwads interest is only charged on balances up to the credit limit of £4,500 (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 Mr F to arrange an affordable repayment plan for the account. Once he has repaid the outstanding balance, it should remove any adverse information recorded on his credit file from August 2021.

The reference to '*All late payment and over limit fees should also be removed;*' is to a refund to the account when it is reworked. It does not apply to the credit file record. Removal from the credit file of all adverse markers (from August 2021) only applies when the account has been paid off.

OR PayPal should do as set out here:

- Considering Mr F's current outstanding balance on the account, I doubt that this bulleted paragraph applies to his circumstances. But I include in any event.

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 Mr F, 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 Mr F's credit file from August 2021.*

*HM Revenue & Customs usually requires PayPal to take off tax from this interest. PayPal must give Mr F a certificate showing how much tax it's taken off if he asks for one.

I've considered whether the relationship between Mr F and PayPal might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Mr F results in fair compensation for him in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My final decision is that I uphold the complaint in part. I direct that 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 Mr F to accept or reject my decision before 27 January 2025.

Rachael Williams
Ombudsman