

## The complaint

Mrs M complains that PayPal UK Ltd registered a default on her credit file.

## What happened

Mrs M holds a credit account with PayPal. In or around September 2023 Mrs M experienced financial difficulties. She made a payment to her PayPal account on 4 September 2023 and was then granted breathing space for October 2023.

On 7 November 2023 PayPal sent Mrs M an email to inform her that her breathing space had ended. The email stated that the account remained in arrears and said that unless Mrs M got in touch, it would re-introduce fees and interest on the account effective from the next statement.

PayPal didn't hear from Mrs M. On 13 December 2023 it issued a Default Notice by post. The Default Notice required Mrs M to make a payment of £54.84 by 3 January 2024. PayPal didn't receive any payment, so it reported a default on Mrs M's credit report.

Mrs M contacted PayPal in April 2024 and complained about the default. She said she hadn't received the Default Notice because she hadn't been living at her address at the time the notice was sent. Mrs M said PayPal should've sent her an email or called her about the status of her account.

PayPal said it couldn't amend the default because it had an obligation to report accurate information to the credit reference agencies.

Mrs M remained unhappy and brought her complaint to this service.

Our investigator upheld the complaint. He said that when the Default Notice was issued in December 2023, Mrs M had missed payments for November and December 2023. He said if the breathing space was excluded Mrs M had only missed two payments, and that the guidance from the Information Commissioners Office stated that three payments should be missed before issuing a Default Notice. The investigator said it wouldn't be fair to treat the October payment as a missed payment because this was an arrangement that PayPal had agreed to as part of breathing space. The investigator said he couldn't see that PayPal had sent a Notice of Sums in Arrears before sending a Default Notice and had therefore failed to follow the correct procedure for issuing a Default Notice. The investigator said PayPal should remove the default from Mrs M's credit file and pay £100 compensation for inconvenience.

PayPal didn't agree. It said Mrs M hadn't met her contractual payments for 6 months. It acknowledged that it had allowed breathing space for October 2023 but said Mrs M had missed her contractual payments on 5 November 2023, 6 December 2023, 5 January 2024, 5 February 2024 and 7 March 2024. PayPal said that during breathing space it continued to report the account and the month of October 2023 wasn't removed from being counted towards Mrs M's period of non-repayment. In relation to its failure to send a Notice of Sums in Arrears, PayPal said it had sent emails to Mrs M each month detailing her arrears before it issued the Default Notice. PayPal said it wouldn't amend Mrs M's credit file.

Because PayPal didn't agree with the investigators opinion, I've been asked to review the complaint.

### **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.

The Information Commissioners Office guidance states that there should be between three and six missed payments for a default to be recorded.

In this case, I'm not persuaded that there had been three missed payments at the time when the Default Notice was sent to Mrs M. I'll explain why.

Mrs M made her contractual payment for September 2024. She then agreed breathing space with PayPal for October 2024. The ICO guidance states that a default should not be recorded where an agreement is reached for an arrangement with the lender, and you keep to the terms of that arrangement. PayPal has said that it doesn't consider breathing space to be an arrangement, but that it is instead merely a payment break.

I disagree with that analysis. I'm satisfied that the breathing space was an arrangement between Mrs M and PayPal whereby it was agreed that Mrs M wouldn't be required to make a payment in October 2023 and interest and fees would be suspended.

The Default Notice was issued on 13 December 2023. As at this point, Mrs M had missed payments for November 2023 and December 2023. PayPal has pointed out that Mrs M had also missed payments in January, February and March 2024. I don't disagree but these months aren't relevant to the issue of whether the required number of payments had been missed before the Default Notice was issued, because these months came after the date when the Default Notice was issued.

At the point when the Default Notice was issued, Mrs M had missed two payments. Therefore, PayPal wasn't acting in accordance with the ICO guidance when it issued the Default Notice. For this reason, I don't think PayPal treated Mrs M fairly when it issued the Default Notice.

I've also thought about whether PayPal should've sent a Notice of Sums in Arrears to Mrs M before issuing the Default Notice. The relevant regulations require lenders to send a Notice of Sums in Arrears when two or more payments have been missed. The purpose of a Notice of Sums in Arrears is to alert a customer to rectify missed payments before escalating to more serious actions like a Default Notice. PayPal has said that it sent several emails to Mrs M each month detailing her arrears. I've reviewed the available information and I can see that PayPal sent a monthly statement notification to Mrs M on 13 October 2023 and on 13 November 2023. It also sent a payment unsuccessful email to Mrs M on 1 December 2023. The next communication was the Default Notice on 13 December 2023. I'm not persuaded that these monthly statements satisfy the requirement to send a Notice of Sums in Arrears. So again, I don't think PayPal treated Miss M fairly in this respect.

Taking everything into consideration and for the reasons I've explained, I don't think PayPal treated Mrs M fairly.

### **Putting things right**

To put things right, PayPal UK Ltd must remove the default from Mrs M's credit file and pay compensation of £100 for the distress and inconvenience caused to Mrs M.

**My final decision**

My final decision is that I uphold the complaint. PayPal UK Ltd must remove the default from Mrs M's credit file and pay compensation of £100 for the distress and inconvenience caused to Mrs M.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 11 November 2024.

Emma Davy  
**Ombudsman**