

The complaint

Mr S complains about a disputed payment and whether PayPal UK Ltd trading as PayPal refunded him as expected.

What happened

Mr S made a payment of £147.64 towards goods purchased using his PayPal credit account. On 28 January 2024, he raised a payment dispute to PayPal as the quality of the goods was not as expected and the items had been damaged in transit. On 30 January 2024, PayPal accepted the dispute and refunded the amount paid to Mr S's account.

In April 2024 Mr S got in touch with PayPal as what he thought he had to pay to clear another purchase made using the credit facility did not match the information on his account. During this conversation, Mr S was told that the numbers looked different to what he expected due to the dispute that was opened in January. He was informed this would be looked in to but says he did not receive a response.

Mr S raised a complaint. He said he was unhappy because PayPal were pulling charges from his account for a debt he does not owe, his credit file was being adversely affected, and he was not receiving clear or timely answers. PayPal did not think it had done anything wrong, so the complaint was brought to our service.

Our investigator reviewed the complaint and didn't find that PayPal had done anything wrong. He said the payment had been refunded to the account, but as per the terms and conditions of the account, it had been allocated to other payments rather than simply being refunded to the purchase transaction.

Mr S asked for an ombudsman to consider the complaint. He said PayPal has admitted its error. He also said that rather than issuing a refund, a charge was made which caused an outstanding retail balance to be owed.

So, the complaint has now been passed to me to decide.

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 reviewed Mr S's February 2024 statement and can see that a refund of £147.64 was applied to the account on 30 January 2024. I therefore do not find there to be any merit in Mr S's assertion that a charge was made to the account rather than a refund having been provided. Mr S has been in receipt of his statements and was able to see that the refund was applied.

Having established that, I will now move on to consider why the refund was not applied directly to the same purchase and was instead dispersed across other purchases. I have reviewed Mr S's credit agreement and the associated terms and conditions of the credit

account and can see the following:

“Allocation of Payments

2.7 If you do not pay the Credit Account balance in full in any month, we will apply your payment to outstanding amounts on your statement in the following order:

- A. first, to any Promotional Purchase Offer Transaction Payment Amounts due; then to*
- B. the Standard Balance; then to*
- C. any Promotional Balance; then to*
- D. any other balance shown on this statement.*

In each category, payments will be allocated in order from the balance subject to the highest interest rate to the balance subject to the lowest interest rate. In the case of the Standard Balance, interest and charges will be paid in advance of Transactions. Where two Promotional Balance Transactions have the same interest rate, the soonest expiring will be repaid first.”

I've considered the account statements and can see at the time the refund was applied; additional purchases had been made on the account. There was a balance of retail purchases which attracted interest. There were also a number of 0% purchase promotions with associated outstanding balances on the account – these had different expiry dates.

In this case the statement activity shows that alongside the refund, other funds were also received into the account during the relevant charging period. The total amount of funds were not enough to clear the outstanding balance on the account. PayPal has told us that when this happens, it applies the funds paid in to the account to the minimum payment, followed by any interest accruing purchases, followed by monthly instalment purchases that accrue interest, and lastly to 0% offers in the order soonest expiring. This is in line with the terms listed above.

Looking at the statement for the following month I can see this is what happened. Funds were applied to the account in the order listed above and the 0% purchase promotions with the latest expiry dates remained on the account. From what I can see, PayPal has not made any errors with how the account has been handled and has followed its terms and conditions. These terms have been designed in line with regulator rules and help to ensure that a customer pays the least amount of interest on the account. So, I do not find PayPal to have treated Mr S unfairly by dispersing funds received into the account in this way.

Mr S has also complained about the lack of clarity and timely response from PayPal on the issues he was experiencing. I do think that Mr S's account statements make clear what has happened, and he was in receipt of these all along. I can see from the chat history that PayPal attempted to explain the queried balances to Mr S correctly. PayPal did mention the dispute had been the cause of the issues, but this is not an admission of liability, and on my review, I don't find it has done anything wrong. So based on everything I've seen, I won't be asking PayPal to take any action to put things right for Mr S.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 July 2025.

Vanisha Patel
Ombudsman