

The complaint

Miss T complains that PayPal UK Ltd has allowed a transaction to be processed when she had insufficient funds.

What happened

Miss T was making a booking for accommodation for a company I'll refer to as "A". Miss T says she attempted to make the booking with A using her PayPal credit facility, the cost of the booking was around £700. Miss T says she wasn't aware that she didn't have sufficient available credit in her PayPal credit facility to make the transaction.

Because of the insufficient funds, PayPal then attempted to collect the funds from her current account (with a different provider). This transaction was declined. PayPal still allowed the transaction to go through, which left Miss T owing the funds to PayPal.

Miss T says that PayPal made no attempt to contact her to resolve the issue despite having made many phone calls – they just sent her reminders of the balance which was outstanding.

Miss T says she paid £200 towards the outstanding balance which was all she could afford at the time. But later she received contact from a debt collector demanding repayment of the remainder of the balance.

Miss T says that she didn't authorise the transaction. And no one she has spoken to at PayPal has helped her cancel the transaction. Miss T says that PayPal have left her out of pocket due to the money she has paid towards the debt. She says she'd like PayPal to write off the outstanding balance, provide her with access to her PayPal account again and send her an apology for the way it has treated her.

PayPal responded to Miss T, but it didn't uphold her complaint. It explained that her PayPal credit account had been linked to A as an automatic payment method since August 2017. It said that when Miss T made the booking with A, it was initially declined because there were insufficient funds in the PayPal credit account. Because of this, it then tried the next funding source attached to the account, which was Miss T's current account. It said it paid the money to A and tried to claim the money back from two separate funding sources, however both were declined which left a negative balance in Miss T's PayPal account. It went on to explain that the balance in excess of £500 is still owed and said it had sent Miss T multiple reminders about this.

PayPal also explained to Miss T that there was a limitation on her account, and in order to restore access to the account, she would need to provide PayPal with some identification to verify her.

An Investigator considered what both parties had said but they didn't think Miss T's complaint should be upheld. They explained that the PayPal user agreement allowed it to collect funds from a different source, where there weren't the available funds in the credit account. They explained that access to the PayPal account wouldn't be granted until the

arrears on the accounts had been repaid. And they explained how Miss T could make a payment to her PayPal credit facility. The Investigator didn't think PayPal needed to do anything to put things right for Miss T.

Miss T didn't agree with the outcome reached by the Investigator. She felt that she hadn't been given the opportunity to provide evidence because she had been blocked out of her PayPal account. Miss T says she wants the Ombudsman to take into account that she hasn't been able to provide evidence to support her case.

Because an agreement couldn't be reached the complaint has been passed to me to decide on the matter.

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 considered all of the evidence available to me, I won't be upholding Miss T's complaint. I appreciate this decision will come as a disappointment to her, as I'm aware of how strongly she feels about her complaint. However, I have explained the reasons behind my outcome below.

It isn't in dispute here that Miss T attempted to make a payment to A using her PayPal credit facility, which was declined due to insufficient funds. Because of this, PayPal then attempted to collect the funds using a different funding source, which was from her bank account. Miss T has already been provided with the section of the PayPal user agreement which allow PayPal to do this, so I won't repeat this again here. While I can understand why Miss T feels like she hadn't authorised PayPal to do this, I'm satisfied that PayPal acted in line with its user agreement when it attempted to collect the payment from Miss T's bank account. And the user agreement gives it authorisation to take this action.

I could understand why someone might not have expected this to happen. But I can see that this has happened to Miss T previously. PayPal has provided evidence of a similar situation that happened in 2023. I appreciate that Miss T disputes this happened, however I will explain what the evidence PayPal has provided shows, which appears to be a screenshot from its internal systems showing the below transactions:

- 28 May 2023 02:18:43pm – a payment to A under the automatic payment method - £690.59 was attempted.
- 28 May 2023 02:18:43pm – attempted collection from PayPal Credit account – payment was denied.
- 28 May 2023 02:18:45pm - a payment to A under the automatic payment method - £690.59 was attempted.
- 28 May 2023 02:18:45pm – attempted collection from Bank account – payment was completed.

I have noted Miss T's comments, in that she said that she made this payment using her bank account. But I have to consider the evidence I have on file, and I'm persuaded this shows that the payment was first attempted using PayPal credit, and when this didn't go through, it was attempted (and successful) using her bank account as the funding source. Due to the timings on the evidence, it appears this process was automatically done.

For this reason, on balance, I think it more likely that Miss T was aware, or at least ought to have been aware, that PayPal would attempt to collect the funds from another funding

source if it couldn't collect it from the PayPal credit account. I'm not persuaded that PayPal has done anything wrong here.

It isn't clear to me why PayPal didn't decline the transaction to A when it couldn't take the funds from her credit account or a different funding source. That being said, Miss T wanted to make the booking with A but didn't have the money to pay for it, and so she didn't lose the booking, PayPal put up the money for it. So, I think it fair and reasonable that she pays PayPal back. However, I would expect for PayPal to set up an affordable repayment plan with Miss T if she's struggling to repay the balance.

Miss T says she's tried many times to resolve the matter with PayPal, but it hasn't supported her. It isn't clear what support Miss T wanted from PayPal, I can see from the notes on her account that an agent did offer to dispute the transaction for her if there was a problem with the service she got from A. That being said, unless there was a problem with the service from A, it's unlikely that disputing the payment would have been successful given that she made use of the accommodation. So I'm not persuaded that PayPal has done anything wrong here.

I am aware that PayPal have restricted Miss T's account so she can't log in online or make payments to either account using this method. Given that there's an outstanding balance now on both of Miss T's PayPal accounts, I don't think this is unreasonable. Miss T has said that she doesn't want to make payments over the phone because it isn't a secure way of paying, but I haven't seen anything to suggest this is the case – most phone payments are secure.

My final decision

For the reasons set out above, I don't uphold Miss T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 4 April 2025.

Sophie Wilkinson
Ombudsman