

The complaint

Ms C has complained about a revolving credit account she took out with PayPal (Europe) S.À r.l et Cie, S.C.A. in 2022. She's said the lending was unaffordable and irresponsible.

What happened

Ms C took out this credit account in April 2022. The credit limit was £2,400.

Ms C said she struggled with the monthly payments, albeit she didn't miss any, and then she repaid the debt of around £2,300 in June 2024 after borrowing money from a family member to allow her to do so.

In June 2024, Ms C complained to PayPal to say the credit should never have been provided to her. PayPal didn't think it had acted unfairly when lending to Ms C.

Our investigator thought PayPal hadn't carried out reasonable and proportionate affordability checks and they said, if those checks had been done correctly, PayPal shouldn't have lent to Ms C due to her financial circumstances.

PayPal didn't agree, so the complaint has 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.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case. What is proportionate will vary with each lending decision and considers things such as (but not limited to): the amount of credit, the size of the repayments, the cost of the credit, the purpose the credit was taken out for and the consumer's circumstances.

Essentially, Ms C needed to be able to meet her financial commitments and not have to borrow elsewhere to repay PayPal for the lending to be considered affordable and sustainable.

PayPal has provided information to show it asked Ms C about her income and expenditure, and it says it obtained third party information from her credit file before lending. PayPal has said that Mrs C declared her net monthly income was between £1,500 and £2,000, that she was a homeowner and her net monthly living expenses were between £500 and £1,000. PayPal has said it obtained information from Ms C's credit file, but it hasn't been able to provide us with a copy of the raw data it obtained, only providing a summary document and

telling us the data it received showed her credit commitments came to £259 a month.

PayPal has provided conflicting information about Ms C's declared expenditure and disposable income:

- Its summary sheet shows a net monthly income of £1,500 to £2,000 and net monthly living expenses as £750 (rather than a range between £500 and £1,000). It then says "we calculated they had a disposable income of £1,000 GBP a month."
- In a covering email with that summary sheet PayPal said "She informed us she had a monthly income between £1,500 - £2,000 GBP and a maximum of £750.00 GBP in monthly expenditure. From these figures (we use the mid-range in our calculations), we determined that she had a monthly disposable income of £1,000.00 GBP."
- But when we queried that, PayPal confirmed in fact "[Ms C] advised that she had between £500- £1000 in monthly expenditure. From the net monthly income and living expenditure (living and housing) amounts, we calculated they had a disposable income of £750.00 GBP per month."

So it wasn't the case that Ms C declared her monthly expenditure was £750 (as per the summary document) or "a maximum of £750" as per the covering email. Instead she declared her monthly expenditure was in the range of £500 to £1,000. It also isn't clear whether PayPal calculated her disposable income as £750 a month or £1,000 a month as both figures have been given.

In actual fact Ms C's income could have been as low as £1,500 a month, and her expenditure as high as £1,000 a month, plus the £259 a month in credit commitments PayPal has said it found (but hasn't evidenced) before any payment that would be needed to be made to this account is taken into account or a buffer for unexpected expenses or changes in income / expenditure / interest rates.

I've thought about PayPal's checks and the particular circumstances here and I don't think it did enough before agreeing the credit agreement. I say that because this wasn't a small liability for Ms C, and the declared information potentially showed little leeway in her budget to take on another credit commitment. I think in the circumstances PayPal should have undertaken some better checks and therefore I don't think PayPal did enough before agreeing to lend.

I have therefore considered what the results of these better checks would have been and how they ought to have affected PayPal's lending decision.

I can't be sure exactly what PayPal would have found if it had asked but our Investigator obtained Ms C's bank statements from around the time to help gain an indication of what that might be. In the absence of further checks by PayPal, I think it's fair to rely on Ms C's actual circumstances at the time.

From what I can see, Ms C received an average income of around £1,460 a month. She was regularly taking out advances on her income (with £400 being credited from a salary finance company in March 2022 alone), and some direct debits were being returned as unpaid. She also took out a loan of £250 from a payday loan company in March 2022. Payments to credit companies just in March 2022 totalled over £450 even without the payments to the salary finance companies being taken into account.

I am also concerned by Ms C's heavy level of reliance on her overdraft. Overdraft use is often an issue of potential concern but when it's being used consistently, with the account rarely if ever going into credit, it's a strong indication that the consumer's financial situation might be deteriorating. Ms C was always in her overdraft and so it seems her income wasn't enough to meet her daily financial needs sustainably, let alone the payments that would arise from the new credit account.

Overall, even without taking into account this new monthly commitment, it is clear Ms C was struggling with her finances. I think further checks were needed by PayPal here and those further checks would likely have shown Ms C couldn't afford the credit account.

PayPal has said that Ms C didn't miss any payments and then repaid it in full in June 2024, but that doesn't mean the lending was affordable or sustainable. Ms C has said she struggled with the monthly payments and then a family member lent her the money to repay it.

Having considered everything very carefully I haven't been persuaded that the decision to proceed with the credit account was in Ms C's best interests overall and I don't think the lending was affordable or sustainable. PayPal in my view has lent when it shouldn't have, and it needs to put things right.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Ms C in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

To put things right for Ms C, PayPal must do the following:

- Remove all interest, fees and charges on the credit account and treat all the payments Ms C made as payments towards the capital. As this rework will result in her having effectively made payments above the original capital borrowed, then PayPal should refund this money to Ms C plus 8% simple interest applied to the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Ms C's credit file in relation to the credit agreement.

*HM Revenue & Customs requires PayPal to deduct tax from this interest. PayPal should give Ms C a certificate showing how much tax it's deducted if she asks for one.

My final decision

For the reasons I've explained, I uphold this complaint and direct PayPal (Europe) S.Ã r.l et Cie, S.C.A to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 1 August 2025.

Julia Meadows
Ombudsman