

The complaint

Mr J complains that PayPal UK Ltd reported a default to the credit reference agencies despite the fact that he was on a payment plan.

What happened

Mr J holds a credit account with PayPal.

In 2023/24 Mr J contacted PayPal to advise them that he was experiencing financial difficulties. In August 2024 PayPal set up a monthly payment plan of £10.

Mr J made payments under the plan but then discovered that PayPal had registered a default.

Mr J complained to PayPal. He said he hadn't been advised that the account could default whilst he was on a payment plan and said he hadn't received the Notice of Default. Mr J said the default didn't reflect his commitment to repaying his debt and asked PayPal to remove it.

PayPal didn't uphold the complaint. In response it said it had informed Mr J that the payment plan would be reported to the credit reference agencies. It said it had issued a Notice of Default to Mr J at his registered address on 16 August 2024 and the account subsequently defaulted on 16 September 2024.

Mr J remained unhappy and brought his complaint to this service.

Our investigator didn't uphold the complaint. He said that although Mr J was in a payment plan, the amount he was paying didn't meet the minimum payment and therefore arrears continued to accrue. The investigator said that the guidance states that a default can be registered once there are three months of arrears.

Mr J didn't agree. He said he hadn't been advised that the account could default whilst he was in a payment plan. He said he didn't feel that PayPal had treated him fairly or properly communicated with him regarding the default. Mr J also said that he hadn't received the Default Notice.

Because Mr J didn't agree 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.

I know it will disappoint Mr J, but I agree with the investigators opinion. I'll explain why.

I've read and considered the whole file, but I'll concentrate my comments on those points which are most relevant to my decision. If I don't comment on a specific point, it's not because I've failed to take it on board and think about it, but because I don't think I need to comment on it in order to reach what I think is the right outcome.

I've reviewed the account. I can see that Mr J experienced financial difficulties in 2023 and that since then, PayPal have supported him with breathing space, payment holidays and payment plans.

In August 2024 a payment plan was set up for £10. PayPal sent an email to Mr J confirming the payment plan which explained that the account would continue to accrue arrears because the payment under the payment plan was less than the minimum payment. The email also explained that the arrears could result in the account being defaulted.

The Information Commissioners Office guidance states that lenders should default an account when the arrears reach three to six months. In this case, I can see that the arrears on Mr J's account had reached this level at the point where the Default Notice was issued.

PayPal sent a Default Notice to Mr J on 16 August 2024. I appreciate that Mr J has said that he didn't receive this. However, having reviewed the Notice, I can see that it's correctly addressed to Mr J. I can't say why Mr J didn't receive the Notice, but I'm satisfied that it was sent. I can't hold PayPal responsible for issues with the postal service.

The Default Notice required Mr J to pay the arrears in full within the timescale specified. No payment was received, and the account was defaulted one month later.

Based on what I've seen, I'm satisfied that PayPal gave Mr J adequate warning that the account could default. I'm also satisfied that PayPal has acted correctly and in line with the relevant guidance.

Mr J has said that he doesn't think PayPal has treated him fairly because he's made efforts to manage his financial situation. There's no dispute that Mr J has engaged with PayPal. However, as Mr J himself has recognised, these payment arrangements don't prevent the account from defaulting. Ultimately, PayPal – like all lenders – has a responsibility to default an account in line with the relevant guidance once the arrears have reached a certain level. Otherwise, arrears would continue to accrue over the long term and place the customer in a much worse financial position.

Taking all the available information into account, and for the reasons I've explained above, I'm unable to uphold the complaint.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 10 April 2025.

Emma Davy
Ombudsman