

The complaint

Mr A is unhappy that PayPal UK Ltd defaulted his account.

What happened

Mr A had a credit account with PayPal with a credit limit of £600. On 3 January 2023, PayPal issued an account statement which showed Mr A's account balance at the time of the last statement (3 December 2022) as being £567.27. In the one-month period until 3 January 2023, Mr A had engaged in spending that totalled £31.28 and interest of £10.61 was applied to the account. This took the balance of Mr A's account to £609.16, which was £9.16 over the agreed credit limit.

On 23 December 2022, Mr A had attempted to make a payment to the account of £35.00, which would have brought the balance of the account within the agreed credit limit, but the payment didn't succeed due to lack of available funds. This meant that Mr A didn't make any payment to his PayPal account in December 2022. And the 3 January 2023 statement confirmed that the minimum upcoming payment required on the account was £22.58 which should be paid no later 28 January 2023.

PayPal next issued an account statement to Mr A on 3 February 2023. This confirmed that the balance of Mr A's account had been £609.16 on 3 January 2023, at the end of the last statement period, and that Mr A hadn't engaged in any spending since that time. However, because Mr A hadn't made a payment to the account during the last statement period, a late payment fee of £12 had been applied to the account, along with £12.21 interest. This took the balance of Mr A's account to £633.37, which was £33.37 over the agreed credit limit.

Mr A again attempted to make a payment to the account, on 26 January 2023, but the payment was again unsuccessful. On 27 January 2023, PayPal had sent an email to Mr A confirming that his payment attempt had been unsuccessful and asking him to reattempt the payment. And because the arrears remained on Mr A's account, PayPal had sent a further email on 31 January 2023, advising him of those arrears and again requesting payment.

But Mr A didn't attempt the failed payment again or make any other payment. And this meant that for the second month in succession, Mr A didn't make any payment to his PayPal account, such that his account was now two months in arrears.

The fact that Mr A's account was in arrears and over the agreed credit limit from the previous month was highlighted in the 3 February statement. And that statement also confirmed that the minimum payment required on the account for the upcoming month was £58.97, which was due to be paid no later than 28 February 2023.

The next statement was issued to Mr A by PayPal on 3 March 2023. This statement confirmed the balance at the end of the last statement period, 3 February 2023, as being £633.37, and again showed that Mr A hadn't engaged in any spending on his account during the statement period.

However, the statement also showed that Mr A hadn't made or attempted to make any

payment towards his account during that same period, so that his account was now three months in arrears. And a further late payment fee of £12 and monthly interest of £10.78 increased the account balance once again, to £656.15. Finally, the statement again highlighted the facts that Mr A's account was in arrears and over the agreed credit limit and confirmed the minimum payment for the upcoming month as being £94.41, which was due to be paid no later than 28 March 2023.

On 9 March 2023, Mr A attempted to pay £45.15 to his account, but the payment was unsuccessful due to lack of funds. PayPal sent an email to Mr A advising him that his payment attempt had failed. Mr A then attempted to pay the required minimum payment amount of £94.41 on 28 March 2023, but the payment was unsuccessful for the same reason. And again, PayPal sent an email to Mr A advising him of this.

The following day, on 29 March 2023, Mr A spoke with PayPal on the telephone and explained that he was experiencing difficult personal and financial circumstances which sadly included the passing of a family member. PayPal's telephony agent asked Mr A several questions about his situation at that time, including whether Mr A felt that the financial difficulty he was experiencing was likely to be long or short term, to which Mr A responded that he believed it would only be short term.

PayPal's agent placed Mr A on hold while he considered what assistance PayPal could provide. The agent then came back to Mr A and offered to place Mr A's account on a one-month 'breathing space' hold, wherein PayPal wouldn't chase Mr A for payment for 30 days but where interest would still accrue on the account and explained that Mr A wouldn't be able to undertake any further spending on the account until the account arrears were repaid. Mr A then confirmed his understanding and ended the call before PayPal's agent could provide any further information.

Shortly after that call, on 3 April 2023, PayPal issued another account statement to Mr A. This confirmed the account balance at the end of the previous period as being £656.15 and that no spending had been undertaken by Mr A in that statement period. Additionally, while PayPal had indicated to Mr A on the recent telephone call that interest would still accrue on his account, the statement showed that PayPal had frozen interest and charges so that none were applied to that statement. This meant that the end of statement balance was still £656.15, which meant the account balance hadn't increased since the end of the last month.

On 5 April 2023, two days after the 3 April 2023 statement was issued, Mr A successfully paid £10 to his PayPal account. This took the balance of the account down to £646.15.

Mr A's one-month breathing space hold ended on 29 April 2023. Mr A didn't contact PayPal again following the end of the breathing space hold, and PayPal issued the next monthly statement to Mr A on 3 May 2023. This statement confirmed the £10 payment that Mr A had made and again showed that PayPal hadn't applied any interest or charges to the account during that statement period. This meant that end of statement balance for Mr A's account was £646.15, which was still £46.15 over the agreed credit limit.

On 5 May 2023, PayPal sent a default notice to Mr A in the post. At that time, Mr A's account had been in arrears and over the agreed credit limit since 28 December 2022, and Mr A hadn't been in contact with PayPal about the position of his account since the end of the breathing space on 29 April 2023. The default notice explained that Mr A's account was £97.53 in arrears and that Mr A was required to clear those account arrears by 26 May 2023, and that if he didn't that PayPal might move to default his account.

Mr A didn't receive the default notice that PayPal had posted to him, and he also didn't contact PayPal about the position of his account or make any further payment to it. And

because of the lack of payment or engagement from Mr A, PayPal resumed applying interest and charges to the account, which took the account balance up to £670.57, before then defaulting Mr A's account for non-payment of account arrears on 16 June 2023.

Mr A wasn't happy that PayPal had defaulted his account and felt that they hadn't notified him that they intended to default his account or taken fair account of the difficult personal and financial circumstances that he told them about. So, he raised a complaint.

PayPal responded to Mr A but didn't feel that they'd done anything wrong in administering his account as they had. Mr A didn't accept PayPal's response, so he referred his complaint to this service.

One of our investigators looked at Mr A's complaint. But they didn't feel that PayPal had acted unfairly by defaulting Mr A's account and noted that it wasn't PayPal's fault that the default notice that they'd posted to Mr A hadn't been received by him. Mr A disagreed, and so the matter was escalated to an ombudsman for a final decision.

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 done so, I'd like to begin by confirming that this service isn't a regulatory body or a Court of Law and doesn't operate as such. Instead, this service is an informal, impartial dispute resolution service. And while we do take relevant law and regulation into account when arriving at our decisions, our remit is focussed on determining whether we feel a fair or unfair outcome has occurred – from an impartial perspective, after taking all the factors and circumstances of a complaint into consideration.

I also note that Mr A has provided several detailed submissions to this service regarding his complaint. I'd like to thank Mr A for these submissions, and I hope that he doesn't consider it a discourtesy that I won't be responding in similar detail here. Instead, I've focussed on what I consider to be the key aspects of this complaint, in line with this service's role as an informal dispute resolution service.

This means that if Mr A notes that I haven't addressed a specific point that he's raised, it shouldn't be taken from this that I haven't considered that point – I can confirm that I've read and considered all the submissions provided by both Mr A and PayPal. Rather, it should be taken that I have considered that point but that I don't feel it necessary to address it directly in this letter to arrive at what I consider to be a fair resolution to this complaint.

In his submissions, Mr A has explained in detail the difficult personal and financial circumstances that he was experiencing at the time in question, which sadly included the passing of a family member. It's only natural for me, on a personal level, to empathise with Mr A in this regard, and I acknowledge the impact on his mental well being that those personal events caused him.

However, in my professional capacity as an ombudsman, I must remain impartial. And while it's understandable, given Mr A's personal circumstances, why he didn't make the contractually required payments on his account, those personal circumstances don't reduce or diminish Mr A's responsibilities as an account holder or affect PayPal's responsibilities and obligations when Mr A's account fell into a position of sustained arrears.

Mr A has said that he didn't receive notifications about the position of his account from PayPal. But PayPal have demonstrated to my satisfaction that they sent a series of emails to

Mr A, including on 27 and 31 January, 4 February, 9, 10, and 29 March, and 4 April 2023. And PayPal's records indicate that all these emails were opened and read by Mr A.

Additionally, and importantly, it was Mr A's responsibility as the account holder to have been aware that payments weren't being made to the account, either through monitoring the payments themselves or through monitoring his account statements. And so, if it wasn't the case that Mr A was aware that his account was in arrears, then I feel that Mr A reasonably should have been aware that was the case.

When Mr A spoke with PayPal on 29 March 2023, he was aware that his account was in arrears, and he also understood that PayPal had provided him with a one-month breathing space which ended on 29 April 2023. Mr A has said that he's unhappy that PayPal didn't contact him following the end of that breathing space. But I feel that the onus was on Mr A to have contacted PayPal himself before the breathing space hold came to an end and to have updated PayPal as to his position.

However, Mr A didn't contact PayPal again, or make any further payment to his account. And because of this, I don't feel it was unreasonable for PayPal to have sent a default notice to Mr A on 5 May 2023, giving Mr A until 26 May 2023 to clear the arrears on his account.

I say this because a credit provider isn't obliged or expected to freeze interest and charges on an account that has fallen into arrears. And while credit providers can freeze interest and charges as a short-term measure of forbearance, such as PayPal did for two months here, it would generally be expected that an account in arrears would be subject to interest and charges, in line with the credit agreement, over the longer term.

Of course, when an account holder can't make payments towards the account, for instance if they are experiencing financial difficulty, such as Mr A was, then this can lead to a situation where the continuing application of interest and charges to an account balance causes the amount of arrears on an account to keep growing. But there is a mechanism designed to prevent an account holder falling into such a position of continually growing account debt, and that mechanism is to default the account.

It's for this reason that credit providers are generally expected to default an account after the account has fallen into three months of arrears (so that the account holder has some time to recover the position of their account) but before the account has fallen six months into arrears (to prevent the continuing growth of account debit as described above). And this is in accordance with guidance on the defaulting of credit accounts as issued by the Information Commissioner's Office ("ICO").

I can appreciate that Mr A would have liked to have avoided the defaulting of his account. But upon review, I feel that the unfortunate nature of Mr A's circumstances meant that the defaulting of his account was, in all likelihood, unavoidable. This is because, ultimately, Mr A couldn't make the monthly payments he was contractually required to make on his account. And, as previously explained, while it's understandable from Mr A's circumstances why that was the case, those unfortunate circumstances didn't reduce or diminish Mr A's contractual responsibility to make those payments.

Additionally, while PayPal could offer short-term forbearance to Mr A, such as the two-month interest and charges freeze they applied, they were neither obliged nor expected to offer such forbearance in the longer term. And PayPal were also expected to begin the process to default Mr A's account if they felt that Mr A was unlikely to be able to recover the position of the account and before the account fell six months into arrears – which is what PayPal did.

Mr A has said that he didn't receive the default notice that PayPal posted to him. This is unfortunate, but I'm satisfied that PayPal posted that default notice to Mr A to the address he had registered with them. And I wouldn't hold PayPal accountable for the non-delivery of correctly addressed mail, given that the delivery of such mail is undertaken by a mail service over which PayPal have no direct control.

Furthermore, as explained previously, Mr A was aware that his account was in a position of significant arrears at the time that PayPal issued the default notice to him, and I feel that the onus was on Mr A to have meaningfully engaged with PayPal at that time, even in consideration of the difficult personal circumstances that he's described.

I realise this won't be the outcome Mr A was wanting here, but it follows that I won't be upholding this complaint or instructing PayPal to take any further or alternative action. This is because, for the reasons I've described above, I don't feel that PayPal have acted unfairly by defaulting Mr A's account given the arrears that developed on the account and the lack of meaningful engagement from Mr A.

I appreciate that Mr A was experiencing difficult personal circumstances during the time in question, but as I've explained, while those circumstances explain why Mr A didn't make the contractually required payments or meaningfully engage with PayPal at that time, they didn't absolve Mr A of his contractual obligations on the account, or alter PayPal's own obligations for an account in prolonged arrears. I hope that Mr A will understand, given what I've explained, why I've made the final decision that I have.

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 A to accept or reject my decision before 13 May 2025.

Paul Cooper
Ombudsman