DRN-5401433

The complaint

Mrs B complains that PayPal (Europe) S.Ã r.l et Cie, S.C.A. lent to her irresponsibly by approving a credit account for her and a credit limit increase on that account which she could not afford.

What happened

Mrs B had an account with PayPal and then in November 2021 she applied to it for a credit account. That was approved on 15 November 2021 with an initial credit limit of £2,500. On 30 September 2022, the limit was increased to £3,500.

After Mrs B had complained she referred her complaint to the Financial Ombudsman Service, where one of our investigators considered that the credit limit increase in September 2022 ought not to have been approved by PayPal. So, our investigator upheld the complaint in part.

PayPal did not respond at that time, and Mrs B was not content as to the outcome of the complaint in relation to the initial lending decision in November 2021. Mrs B considered that the account ought not to have been approved at all. So, the unresolved complaint was passed to me to decide.

After I had reviewed it, I asked PayPal for additional information and I've received it all. I understand that the account defaulted on 14 October 2024 and Mrs B is currently engaged with PayPal in a repayment plan of £8 per month. The balance owed currently stands at £3,442.31.

I reviewed all the other complaints Mrs B has brought to the service to better understand some of the background.

Mrs B has sent to us a copy of her debt management plan for July 2024. But as this post-dates the periods I am being asked to review then it's not relevant. It is important for the management of the PayPal debt going forward. And I am pleased to see that Mrs B has independent help and is receiving debt advice.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance, and good industry practice - on our website and I've taken that into account when I have considered Mrs B's complaint.

PayPal needed to take reasonable steps to ensure that it didn't lend irresponsibly to her. In practice this means that it needed to carry out proportionate checks to make sure Mrs B could afford to repay the additional credit she was being given in a sustainable manner. These checks could consider a number of different things, such as how much was being lent, the repayment amounts and Mrs B's income and expenditure.

In the early part of the lending relationship, we might think PayPal would have needed to do more if, for example, a borrower's income was low or the amount lent was high. Generally speaking, the longer the lending relationship goes on, the greater the risk of a consumer having a change in their financial circumstances, leading to the lending becoming unsustainable and the borrower getting into financial difficulty. So, we'd expect a lender like PayPal to be able to show that it didn't make the decision to lend or continue to lend to a customer irresponsibly.

PayPal has explained that it took key information from Mrs B when she applied in 2021 including identity and residential status and net monthly income plus expenses. PayPal did eligibility, creditworthiness and affordability checks using one, sometimes two, credit reference agencies (CRAs). It obtained details of the existing financial commitments which PayPal says may differ from a personal credit file search.

PayPal's records about Mrs B in 2021 show that she declared her monthly income was between £1,001 to £1,500 each month and her expenditure was £0 each month. It used the mid-range figures in its assessments. It determined Mrs B had a monthly disposable income of £1,250. I find this unrealistic and rather ridiculous that it proceeded on this figure. So, I have rejected these checks and I have reviewed the actual information supplied by Mrs B by reviewing copies of her bank account statements.

The CRA information PayPal obtained has been summarised for us by it and PayPal says that it indicated that Mrs B was not overindebted, the debt to income ratio was satisfactory and she had no defaulted accounts in the year leading up to this application.

I consider that the checks PayPal carried out before lending were not proportionate and not realistic. And it ought to have done more.

I asked PayPal for details of the use Mrs B made of her existing PayPal Wallet account she had in the lead up to the credit account application. I considered that how she managed that account would have been relevant. Having reviewed the transactions on that Wallet account my view is that the transaction types and amounts were not of a kind to lead PayPal to be alerted to any concerns when Mrs B applied for a credit account.

However, as I said earlier, using a £0 figure for Mrs B's general outgoings was not appropriate and unrealistic and PayPal ought to have discovered more about Mrs B's expenditure before deciding to approve a credit account.

Asking Mrs B for further information about her financial situation may have involved her supplying copies of utility bills, copy payslips and evidence of other expenditure and credit accounts for which she was liable. A convenient method, one of several available, was to have reviewed copies of Mrs B's bank account statements which usually show a wider picture of her finances and how she was managing her money.

I have used the bank account statements for the account ending *6368 for August, September and October 2021.

The first element to note is that Mrs B was receiving Universal Credit (UC) of around £1,523 a month and so appeared not to have been working at the time. Mrs B received child benefit of just under £85 each four weeks which translates into £92 each month.

Mrs B seemed to pay to a social housing group £448 each month. She had the usual types of Direct Debits set up to pay for phones, internet, utilities and often she paid down her existing credit cards.

None of these payments led her to go into her overdraft or into unauthorised borrowing on the account. They allowed plenty of financial room for Mrs B to spend money on other things we'd consider to have been discretionary spending. She had no Direct Debit returns or any other indicators to alert PayPal, had it seen these statements, to any financial difficulties in the regulatory sense of the phrase. I do not consider that PayPal, had it carried out further checks, would have changed its decision to approve the credit account in November 2021.

I've read all that Mrs B has sent to us about her 2021 finances but these do not persuade me to change our investigator's view on this part.

I do not uphold this part of the complaint.

Credit limit increase.

PayPal has explained:

> *As for the credit limit increases*, *our decision to offer these was based on internal rules about their repayment history with PayPal and also how they managed their credit commitments using external or CRA data, such as their credit score and debt to income ratio. These are overlaid with our specific rules and eligibility requirements that they must meet at the time of the increase.*

PayPal has said that Mrs B had satisfied those requirements before the credit limit increase. PayPal has told us that Mrs B had the ability to manage her credit limit online. Mrs B had adapted her personal preferences to receive credit limit increase offers and had elected that these were accepted when offered.

On 30 September 2022, PayPal did more research before offering a credit limit increase of £1,000 to £3,500. Using information it said it gathered about Mrs B it said that her monthly disposable income was £1,000. It had looked at how she had repaid the credit account in the year leading up to the credit limit increase and her average monthly repayment had been £77 and had never paid more than the minimum sum due. Mrs B's outstanding balance on the account had been £1,209 on the credit limit at the time of £2,500 and so PayPal had noted that she was not near her limit.

How Mrs B had run the credit account between November 2021 and September 2022 was relevant. I obtained the excel spreadsheet transaction list of her use of the credit account for that period. I can see that her current account was linked with the PayPal credit account and likely through her existing Wallet account.

I asked PayPal for each monthly credit account statement which I received recently. I have reviewed those to see how Mrs B had been managing the existing credit account with PayPal before the credit limit increase. I have seen that Mrs B hardly used the account, never failed to repay something each month and so it's understandable that from those records her use of the credit account up to the credit limit increase decision would have been favourable.

PayPal had said it looked at the situation with Mrs B's other (external) debt. It was a total outstanding debt figure of £9,042 across six other accounts. PayPal had noted that Mrs B had no historical or active defaults. Mrs B's 'debt to income' ratio was 44%. Her repayment record to the PayPal credit account had been good. And according to its research she was required to repay a total each month (minimum repayments) to the other lenders of £0. Again, this was unrealistic and my view PayPal ought to have done more.

I am not satisfied that PayPal did enough before approving a credit limit increase. And I say that because her overall existing debt had increased a great deal to around £9,000 in one year. And its calculation that Mrs B's minimum monthly repayment sum was £0 for those other accounts was unreasonable and unrealistic. And so, I consider it should have done further checks.

For the same reasons outlined earlier in this decision, I have reviewed Mrs B's bank account statements for July, and August 2022. Mrs B received a little less from UC - £1,497 each month. Her child benefit income was a little higher. Her payment patterns had altered in that she appeared to pay less to the social housing company in July 2022 and in two payments of £119. She was using her overdraft more often. She received a one-off 'Cost of Living'

Payment of £325 from DWP in July 2022 which was payable to low income individuals. In August 2022, her payment to the housing company had gone back to £478. I do not have the bank statement for September 2022. But I can see from the July and August statements that use of her overdraft was more pronounced.

Had PayPal seen these details before it decided to raise her credit limit in September 2022 then I do not consider it would have done that. I uphold Mrs B's complaint about the second credit limit increase.

Mrs B's credit file

Where an outstanding balance remains, or will remain, after all interest, fees and charges adjustments have been made we won't usually tell a lender to remove any adverse information such as a default. This is because an outstanding balance will remain and the consumer will normally be expected to repay this.

So, where a consumer has a balance they're expected to repay it's only fair for this to be reflected on their credit file so that future lenders can take into account what a consumer already owes when deciding whether to lend. Equally removing a default, won't stop a lender from re-recording one, should the consumer once again fall behind or fail to pay what's owed. And this could lead to a default appearing on their credit file for longer than the usual six years.

This is our approach and is reflected in the redress I have outlined at the end of the decision.

Mrs B's financial difficulties

PayPal has said that it was unaware of her financial concerns and her difficulty repaying until she informed it in July 2024. It approved one month of breathing space for Mrs B. It has sent to me the account notes for the period 2 July 2024 to 7 September 2024. I asked for more but none has been sent.

I have seen a copy of the letter confirming a repayment plan when her outstanding balance was £3,498. It accepted her offer of £8 a month. It said to Mrs B that arrears would build up and it would have to inform the credit reference agencies. Mrs B has told us that it likely will lead to a default on this account which has upset her. I know now that this was defaulted in October 2024. However, where the arrears are persistent then it is not unusual for a default to be imposed.

Mrs B has spoken of some distressing hospital visits and some health issues but I've no evidence that she contacted PayPal about these issues either before the credit account was approved in 2021 or before the credit limit was increased in 2022. So, I can't attribute to PayPal lack of care and attention and its treatment of her as being poor when it did not know and was not expected to know of these issues.

What I do have is that the first PayPal knew of her difficulties and there is reference to Mrs B having anxiety in the account notes, was July 2024.

As Mrs B has informed them of her debts, she has received debt management advice and PayPal has agreed to set up the repayment plan. I consider that fair. However, at £8 a month, and PayPal's letter to Mrs B to confirm the repayment plan stated the outstanding balance was £3,498, that means it will take Mrs B 36 years to pay this off. The balance owed currently stands at £3,442.31. This length of time to repay the balance is unreasonable.

In the circumstances I think that PayPal ought to arrange to discover more from Mrs B or her debt management advisor about her current situation with a view to managing the debt in the interests of fairness and considering the hardship Mrs B is in. PayPal needs fully to understand her health, earning power and future prospects.

Putting things right – what PayPal must do

- Rework Mrs B's account to ensure that from the date of the September 2022 credit limit increase the onwards interest is only charged on balances up to the credit limit of £2,500 (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and

- If an outstanding balance remains on the account once these adjustments have been made PayPal should contact Mrs B to arrange an affordable repayment plan for the account if one is not already in place.

OR

- If the effect of removing the interest, fees and charges from the September 2022 credit limit increase date results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs B, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. If this situation is applicable, PayPal should remove any adverse information from Mrs B's credit file from September 2022.*

  Considering Mrs B's current outstanding balance on the account, I doubt that this bulleted paragraph applies to her circumstances, but I include for completeness.

  I make no direction in relation to Mrs B's credit file records.

*HM Revenue & Customs usually requires PayPal to take off tax from this interest. PayPal must give Mrs B a certificate showing how much tax it's taken off if she asks for one.

I've considered whether the relationship between Mrs B and PayPal might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Mrs B results in fair compensation for her 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.

My final decision

My final decision is that I uphold the complaint in part. I direct that PayPal (Europe) Sarl et Cie SCA should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 20 August 2025.

Rachael Williams
Ombudsman