

The complaint

Miss L complains that PayPal (Europe) Sarl Et Cie Sca ("PayPal") approved a credit account for her in 2022 when she could not afford it.

What happened

Miss L took a PayPal Credit account in March 2022 and the credit limit approved for her was £800. It's a revolving credit product, similar to a credit card, and attached to Miss L's PayPal account which she had had since 2007. Miss L was able to use it to make online purchases (up to the agreed credit limit) and she was required to pay at least the minimum repayment sum each month. No credit limit increases were approved. Currently the account has an outstanding balance of around £656.

After Miss L had complained, PayPal issued its final response letter (FRL) in July 2024 in which it did not uphold her complaint in relation to the irresponsible lending. It considered that it had offered forbearance to Miss L after she had told PayPal she was in financial difficulties in June 2024. It applied a breathing space to the account from June 2024 valid for 30 days. It then removed the late payment marker on her account from October 2022 and PayPal added a '*one time courtesy credit of £100*'. Interest and charges have been frozen on the account since then and Miss L has regularly been paying £10 each month.

Miss L referred her complaint to the Financial Ombudsman Service where one of our investigators looked at the complaint and did not think that PayPal had done anything wrong.

Miss L disagreed and the unresolved complaint was passed to me to decide. Miss L sent us submissions to explain why she wanted an ombudsman to review the complaint and I have read them all.

After I had reviewed the complaint I asked PayPal for additional information surrounding a defaulted account dated January 2022 to which Miss L has referred us, and I asked for a transaction statement for Miss L's standard PayPal account for the two years leading up to the credit account approval. I have received those and reviewed them.

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 Miss L'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 Miss L 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 Miss L'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 Miss L when she applied in 2022 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 also obtained details of the existing financial commitments. PayPal says this may differ from a personal credit file search.

PayPal's records about Miss L in 2022 are that she declared she was a homemaker, rented her accommodation, and had a monthly income of between £1,501 and £2,000 and approximately £501 to £1,000 in monthly expenditure. It used the mid-range figures in its assessments. It determined Miss L had a monthly disposable income of £750.

The CRA information indicated that Miss L was not overindebted, the debt to income ratio was satisfactory and according to the PayPal credit search she had no defaulted accounts in the period leading up to this application. Miss L's debt-to-income ratio was 6% when PayPal checked in March 2022 which is low.

Miss L had provided us with her own personal credit file and when I looked at it I saw that her default to which she has referred was for a utility bill dated January 2022. Our investigator has referred to it as an insurance account but I think she meant to refer to this utility bill default.

I made enquires with PayPal as to why it would not have picked up on that defaulted account from January 2022? The answer was that this was not a credit account and utility accounts are not always reported to credit reference agencies. So, it had a satisfactory answer when asked as to why it would not have seen that when it carried out its checks in March 2022. And I say that because some credit reference agencies report on different things and personal credit files often show differing results to those obtained by businesses.

Added to which, my view is that even if it had picked up on that, one defaulted account likely would not have made a difference to the PayPal decision to lend to Miss L.

Miss L has said that *'PayPal could see from their standard account I had with them some payments did not go through and I was in a negative balance.'*

Prompted by this comment from Miss L, I asked for and have reviewed the transactions lists for that other PayPal account held by Miss L and it does not show that Miss L was having trouble or was in a negative balance in the months leading up to the March 2022 credit application. There seems nothing out of the ordinary such that PayPal would have been alerted to an issue with Miss L's finances.

Miss L has referred to accounts that she opened after the PayPal credit account and her use of 'buy now pay later' accounts. PayPal did not know, and would not have been expected to have known, of those.

Miss L has referred to other complaints brought about other credit providers. I have thought about this. But some of the other complaints were for accounts opened after the PayPal credit account was approved and so are not relevant to this complaint. And for other complaints for accounts which pre-dated March 2022 then each complaint is considered on its own individual circumstances. A complaint being upheld in respect of one credit provider does not necessarily lead to all credit providers having got it wrong. I hope that this gives Miss L some level of explanation.

With the records it had gathered, plus having known Miss L's transaction record on her ordinary PayPal account since 2007, then it would not have been prompted to have carried out further enquiries.

I consider that PayPal carried out proportionate checks and did not lend irresponsibly when it approved the credit account with an £800 limit.

Miss L has said that PayPal ought to have done more when it realised she was in financial difficulties. Once it was aware of this in June 2024 then it did carry out a number of actions (outlined in the 'what happened' part of this decision) and so I do not consider that it has derogated from its obligations to offer Miss L forbearance.

Miss L is continuing to repay the account at £10 each month and I remind PayPal that now it is more familiar with Miss L's personal circumstances since her complaint that it needs to treat her fairly and with empathy and forbearance going forward.

I've considered whether the relationship between Miss L and PayPal might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think it lent irresponsibly to Miss L or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

My decision is that I do not uphold the complaint. I realise Miss L will be disappointed.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 20 June 2025.

Rachael Williams
Ombudsman