DRN-5580000

## The complaint

Mrs B believes PayPal UK Ltd (PayPal) acted irresponsibly when it approved her credit card application and later increased the credit limit.

## What happened

In June 2022 Mrs B applied for a credit card with PayPal. This application was approved with an initial credit limit of £1,500. In February 2023, the credit limit was increased to £2,100.

In January 2024 Mrs B – via a professional representative (PR) – complained about PayPal's decision to lend. The details of the complaint are familiar to both sides, so I won't repeat them in detail here. But, in short, PR said that it didn't think PayPal had taken *reasonable steps to assess Mrs B's ability to meet repayments in a suitable manner, without incurring financial difficulty or experiencing significant adverse consequences.*

In May 2024, PayPal issued its final response, in which it said it did not uphold the complaint. In short, PayPal said that – as well as obtaining information from a credit reference agency - it had asked Mrs B to *disclose key information about their identity including employment and residential status, along with their net monthly income and expenses.* And, having done so, it did not think it had been wrong to lend.

Unhappy with this, PR referred the matter to our service.

One of our investigators reviewed Mrs B's complaint and issued their first set of findings in October 2024. In doing so, they thought PayPal had treated Mrs B unfairly, and so they recommended that the complaint be upheld. In short, the investigator said that PayPal did not conduct reasonable and proportionate checks prior to agreeing to the initial application and, had it done so, it would not have agreed to lend.

PayPal didn't agree with the investigator's findings. In the months that followed our investigator was provided with more information by both parties. Upon receipt of this, the investigator issued a second set of findings in May 2025 in which they said that they did not think PayPal had acted unfairly, and so they didn't recommend that the complaint be upheld.

In short, the investigator remained of the view that PayPal did not conduct reasonable and proportionate checks but went on to say that, had it done so, it would have agreed to lend and therefore, it didn't act unfairly with regards to the both the initial lending decision and the subsequent credit limit increase.

PR didn't agree and, as an agreement couldn't be reached, 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 Ombudsman Service has set out its general approach to complaints about irresponsible and unaffordable lending on its website. And, having taken this into account along with everything else I need to consider, I don't think it would be fair or reasonable to uphold this complaint. I recognise this will be disappointing for Mrs B. I hope my explanation helps her to understand why I've come to this conclusion.

However, whilst I've carefully thought about everything that has been said and provided by both parties, I won't comment on everything in my decision. This is not intended as a discourtesy to either party, but it reflects the informal nature of this service in resolving disputes.

<u>Account opening – June 2022</u>

PayPal needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs B could repay the borrowing in a sustainable way.

These checks weren't prescriptive, but could take into account a number of different things such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

So, in keeping with the information on the Financial Ombudsman Service's website, I think there are a number of overarching questions I need to consider when deciding a fair and reasonable outcome given the circumstances of this complaint:

1. Did PayPal carry out reasonable and proportionate checks to satisfy itself that Mrs B was likely to have been able to repay the borrowing in a sustainable way?

    i. If PayPal carried out such checks, did it lend to Mrs B responsibly using the information it had?

    Or

    ii. If PayPal didn't carry out such checks, would appropriate checks have demonstrated that Mrs B was unlikely to have been able to repay the borrowing in a sustainable way?

2. If relevant, did Mrs B lose out as a result of PayPal's decision to lend to her?

3. Did PayPal act unfairly or unreasonably in some other way?

*Did PayPal carry out reasonable and proportionate checks?*

There are many factors that could be relevant when determining how detailed proportionate checks should have been. And while much will depend on the circumstances in question, the more obvious factors include – though aren't necessarily limited to:

- The type of credit Mrs B was applying for along with the size, length and cost of the borrowing; and

- Mrs B's financial circumstances – which included her financial history and outlook along with her situation as it was, including signs of vulnerability and/or financial difficulty.

And generally speaking, I think reasonable and proportionate checks ought to have been more thorough:

- The lower an applicant's income because it could be more difficult to make the repayments as a result;

- The higher the amount repayable because it could be more difficult to meet a higher repayment, especially from a lower level of income; and

- The total cost of the credit.

As a result, the circumstances in which it was reasonable to conclude that a less detailed affordability assessment was proportionate strike me as being more likely to be limited to applicants whose financial situation was stable and whose borrowing was relatively insignificant and short-lived – especially in the early stages of a lending relationship.
I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mrs B's complaint.

Prior to agreeing to lend, Mrs B was asked to provide details about her income by selecting from a pre-determined band. Mrs B said her net monthly income was between £1,500 and £2,000 (PayPal used the median figure as part of its lending application). With regards to expenditure, Mrs B declared her monthly living expenses totalled £500. Mrs B also said she was a tenant and her employment was 'homemaker'. As a result, PayPal calculated that Mrs B had disposable income of £1,250.

PayPal has provided evidence to show that it checked Mrs B's credit file. The data PayPal obtained showed Mrs B had external debt totalling £219 spread across three accounts, to which she was committed to paying a minimum of £9 a month. It also showed Mrs B had no active or historic defaults or delinquent accounts.

Having thought carefully about this, I am not persuaded these checks were reasonable and proportionate in the circumstances. I say this because the rules state that when assessing income and expenditure it was generally not sufficient for a lender to rely solely on a declaration of those figures. In other words, the general expectation was that it should seek some assurances of those figures through other means as well. And I think that was particularly the case here, bearing in mind Mrs B's declared an income of between £1,500 to £2,000 a month which, on the face of it, doesn't match with her declared employment.

I wouldn't have expected PayPal to decline this application just because Mrs H had declared herself to be a homemaker. However, I would expect PayPal to take this into consideration when making their lending decision

What's more, declared total monthly expenses of £500 seems low for someone who says they are a tenant.

With all of this in mind, I think PayPal needed to do more to ensure it had a proper understanding of Mrs B's overall financial situation to be satisfied she could afford the lending in question. Therefore, I don't think the checks PayPal carried out were reasonable and proportionate in this case.

*Would reasonable and proportionate checks have demonstrated that Mrs B was likely to have been able to repay the borrowing in a sustainable way?*

It isn't possible to determine with certainty what reasonable and proportionate checks would have shown PayPal in practice as I don't know what checks it would have decided to carry out if it had its time again.

As a result, what I'm considering here is the likelihood of reasonable and proportionate checks showing PayPal would have been able to sustainably repay the borrowing in question. And for that reason, it is necessary to now consider information that PayPal hadn't considered in June 2022.

PayPal could have obtained a deeper understanding of Mrs B's financial circumstances by asking for her bank statements, for example.

Mrs B has provided bank statements covering most of 2022. For the purposes of this part of my decision – which focusses on the initial lending decision - I will focus on the bank statements covering the three months before Mrs B applied for the credit card (i.e. March 2022-May 2022), as I think this would have given PayPal a good understanding of Mrs B's overall financial circumstances.

I accept that something that we can now see from the information Mrs B has provided wouldn't necessarily have been disclosed by whatever reasonable and proportionate checks PayPal might have decided to carry out. But, in the absence of anything else from PayPal, I don't currently think it's unreasonable to rely on Mrs B's bank statements when determining what her financial circumstances were likely to have been like before she applied for this credit card.

Having looked at the bank statements for March, April and May 2022, I can see that Mrs B received Personal Independence Payments, Employment and Support Allowance, Child Tax Credit and Child Benefit in terms of regular income. On average, this income equated to £1,680. In addition, it looks like Mrs B received on average around £404 via PayPal each month – which increases Mrs B's average income to around £2,084 per month. Therefore, Mrs B's income appears to be either within or towards the top end of the range she declared to PayPal.

I note there were a number of other payments received from various individuals. These payments were sporadic and varied in value and – for the purposes of an income and expenditure assessment I have not included these as reliable streams of income.

I've seen that Mrs B's regular committed bills and credit commitments were around £700 per month. This therefore left her with around £980 each month (using the lower income excluding payments received via PayPal) for food and other household/living essentials. I've not seen anything to persuade me that this would have been insufficient to meet his regular, non-discretionary expenditure.

What's more, the bank statements did not reveal any other obvious signs of financial strain, such as prolonged use of an overdraft or returned Direct Debits.

With all of this in mind, if PayPal had made further checks, as I think they should have, then I think it's unlikely it would have decided the initial lending was unaffordable or unsustainable for Mrs B. So, I don't think PayPal acted unfairly by agreeing to lend.

<u>Credit Limit Increase – February 2023</u>

Around eight months after the initial lending decision, Mrs B was offered an increase in her limit to £2,100, which she accepted.

Prior to agreeing to lend, it looks like PayPal relied on some of the information it had gathered during the initial lending decision – in particular with regards to the employment status (homemaker) and monthly disposable income (£1,250). It doesn't appear Mrs B was asked to reconfirm these details.

PayPal also considered Mrs B's account activity. It noted that the average monthly minimum payment during the period before the credit limit increase was £22.82, whereas Mrs B was paying, on average, £83.49 towards the account.

As with the initial lending decision, PayPal has provided evidence to show that it checked Mrs B's credit file. This showed Mrs B had a total of four revolving credit accounts with a combined outstanding balance of £244 for which the minimum monthly payments due totalled £17. It also showed Mrs B had no active or historic defaults.

I'm not persuaded these level of checks were reasonable and proportionate. I say this because I don't think it was reasonable to assume that Mrs B's circumstances (in terms of income and expenditure) had stayed the same. I think PayPal ought to have taken steps to verify Mrs B's circumstances at the time.

What's more, it looks like Mrs B was using about 95% of her existing credit limit. This is clearly not, in and of itself, a reason not to lend – particularly bearing in mind it looks like Mrs B was making more than the minimum payments every month. But I think it ought to have prompted PayPal to seek some additional reassurance that further borrowing was likely to be affordable and sustainable for her.

With that being the case, I don't think the checks PayPal carried out were reasonable and proportionate in this case.

*Would reasonable and proportionate checks have demonstrated that Mrs B was likely to have been able to repay the borrowing in a sustainable way?*

Mrs B has provided bank statements covering the three months prior to the credit limit increase (November 2022, December 2022 and January 2023). I think this would have given PayPal a good understanding of Mrs B's overall financial circumstances.

Having looked at the bank statements I can see that, as with the initial lending decision, Mrs B received Personal Independence Payments, Employment and Support Allowance, Child Tax Credit and Child Benefit in terms of regular income. On average, this income equated to about £1,522. Therefore, Mrs B's income appears to be within the range PayPal relied on when making it's lending decision.

In addition, it looks like Mrs B received on average around £178 via PayPal each month – for the purposes of this decision I will set these payments aside as these payments seem more sporadic than eight months earlier (for example there doesn't appear to be any receipts of this kind in November 2022). Therefore, I don't think PayPal ought to have taken them into consideration. Also, I note in November 2022 Mrs B received several relatively large payments which appear to relate to probate account closure and life insurance. Again, I will not include these receipts when considering income and expenditure.

I've seen that Mrs B's regular committed bills and credit commitments were around £770 per month on average. It does appear that Mrs B's committed expenditure increased in December 2022 and January 2023 – with the average committed expenditure across these two months being about £900.

However, even if I were to rely on the higher figure (i.e. the average for December 2022 and January 2023 alone) Mrs B would have been left with around £622 each month for food and other household/living essentials. I've not seen anything to persuade me that this would have been insufficient to meet his regular, non-discretionary expenditure.

And, as with the initial lending decision, the bank statements don't reveal any other obvious signs of financial strain.

I accept that Mrs B's actual circumstances when PayPal lent to her may be more accurately reflected by the copy of her credit file she provided the investigator with – which (amongst other things) shows a County Court Judgement (CCJ) was recorded against Mrs B in March 2022, just three months prior to the initial lending application. This information was not available to PayPal from the credit report data it obtained prior to agreeing to lend. I'm unsure why this would be the case, although different reference agencies may take longer to report a CCJ than others.

But I think I'd be applying the benefit of hindsight unfairly if I were to now use Mrs B's own copy of her credit file to argue that PayPal's credit search was in some way inadequate or incomplete when that didn't appear to be the case at the relevant time.

In any event, bearing in mind the rest of the information PayPal obtained (or ought to have obtained had it carried out reasonable and proportionate checks) I don't think the presence of a CCJ – or evidence of accounts having previously been sent to recoveries would - in and of itself, be a reason to decline a lending application.

With all of this in mind, if PayPal had made further checks, as I think it should have, then I think it's unlikely it would have decided the credit limit increase was unaffordable or unsustainable for Mrs B. So, I don't think PayPal acted unfairly by agreeing to lend.

*Did PayPal act unfairly or unreasonably in some other way?*

I've also considered whether PayPal acted unfairly or unreasonably in some other way given what Mrs B has complained about, including whether their relationship with her might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974.

However, for the reasons I've already given, I don't think PayPal lent irresponsibly to Mrs B or otherwise treated her unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

## 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 Mrs B to accept or reject my decision before 26 June 2025.

Ross Phillips
**Ombudsman**