

The complaint

Mr H complains about the balance owed on his account with PayPal UK Ltd trading as PayPal.

What happened

On 30 December 2022, Mr H made a purchase for £4,100. He used his PayPal credit account to make the purchase, and the goods were bought via eBay.

Mr H initially cleared £1,000 of the amount owed by making a payment to PayPal via his bank account on 7 January 2023. A further payment of £3,112.33 was then made on 1 February 2023, clearing the balance in its entirety.

Mr H contacted PayPal soon after to let it know that he had intended to pay the £3,112.33 amount via direct debit in smaller payments, rather than paying a lump sum in the manner which he had done. PayPal accommodated this by refunding this amount and Mr H set up a direct debit and paid the balance off in smaller increments over the course of 2023.

Mr H subsequently experienced issues with the goods purchased. He has said he contacted both PayPal and eBay to discuss this and failed to receive assistance. He therefore took the merchant to the county court and received judgement in his favour for the amount he paid towards the goods, plus interest and costs. But the merchant stopped trading before the payment could be settled.

Mr H then contacted his bank and a reversal of the payment was initiated. So, his bank took the money paid for the goods back from PayPal in March 2024. Effectively this caused Mr H to retrieve the payment he had made towards the goods, but PayPal was now bearing the cost of the goods.

PayPal applied the negative balance back to the account and started charging Mr H for it. Interest has been applied, and the account has been passed on to a third-party debt collection agency to recover the amount owed.

Mr H disputes the amount owed. He has also expressed frustration with a lack of clarity and assistance provided by PayPal, including and not limited to, an admission it made that the issue stems from money not moving in the correct way between his PayPal and PayPal credit accounts.

Our investigator reviewed the complaint and said Mr H did indeed owe the funds PayPal was charging Mr H, so the complaint was not upheld.

I issued a provisional decision in which I said the following:

Does Mr H owe PayPal the money?

The simple answer to this question is yes. I'll explain further.

The question here is whether PayPal should be bearing the cost of the goods following Mr H

having received a county court judgement to say the merchant should give him the money back.

Mr H found he was getting nowhere trying to discuss this the issues he had with the goods with PayPal and eBay so he took the merchant to court. He received judgment in his favour, firmly establishing that he is owed the money paid back from the merchant. Unfortunately, the merchant ceased trading before the judgement could be settled so Mr H was at a standstill with attempting to get his money back from the merchant directly.

He spoke to his bank who reversed the payments he made to PayPal. So now, PayPal is out of pocket rather than Mr H. I appreciate and understand why Mr H did this. He feels that the dispute is now between his bank and PayPal and the matter is washed off his hands. It doesn't quite work like that.

The way in which PayPal can be held liable for the amount paid to the merchant is under the provisions of Section 75 of the Consumer Credit Act 1974 (Section 75 CCA). This legislation allows – in certain circumstances - for a creditor (PayPal) to be jointly and severally liable for any claim by the debtor (Mr H) of breach of contract or misrepresentation made by a supplier of goods and/or services (the merchant).

PayPal has not considered a Section 75 claim and therefore not accepted that it should take liability for the faulty goods. By taking the money back through his bank rather than allowing PayPal to consider whether it accepts responsibility under Section 75, Mr H has circumvented the process that actually allows him to get his money back from PayPal.

Without this having been done, PayPal was not wrong to apply the balance back to Mr H's account and charge him for it. So, all the resulting interest applied, and debt collection activity is fair and reasonable in the circumstances.

I hope this explanation goes some way to explain things to Mr H in a clear way.

Did PayPal do anything else wrong?

Having considered what has happened and the steps Mr H took, I am minded to find that things could have gone differently had Mr H been guided and advised suitably by PayPal.

Mr H says that he spoke to PayPal and eBay about the issues he had with the goods before taking the merchant to court. I am persuaded by his testimony on this matter. It is unlikely that Mr H's first action would have been to approach the courts to resolve this matter.

I do not expect a lay person to know the details of payment disputes and the associated legislation. When Mr H contacted PayPal to ask for help, PayPal could have done more to assist and guide him on to the path of raising a payment dispute, which would have meant Section 75 would have been considered at an earlier point.

I have also listened to calls after the balance was applied back to the account and can see Mr H failed to receive clear answers or suitable prompts from PayPal at that point as well. Mr H did indeed owe this money to PayPal and the balance was applied correctly to the account, but no one took the time to explain how a payment dispute should be raised and set Mr H on the path to raising one. Instead, he was left wondering why the balance was being applied to his account and suffering the understandable distress that stems with that activity. A lot of confusion was caused by the earlier refund made to the account when that had nothing to do with the concerns Mr H was raising, and this was a failing on PayPal's part.

For its failure to give Mr H clear information in a way he could understand, and for the customer service he has received, I am minded to find that PayPal should pay Mr H £250 for distress and inconvenience caused. As our investigator has done, I would also encourage Mr H to raise a claim under Section 75 and allow PayPal the opportunity to consider whether it is jointly and severally liable for the amount owed under this financial provision, which if successful, would mean Mr H would no longer owe the amount he paid for the goods.

Both parties responded to the provisional decision. PayPal explained that it had explained to Mr H on multiple occasions that his bank had performed a retrieval of funds rather than having credited him the funds, but Mr H did not understand the implications of this.

Mr H explained that he is still unsure what the path forward is for him. He does not know whether he is out of time to raise a Section 75 claim and found PayPal to be obstructive and unhelpful. He also provided information about how detrimental this has been to his health.

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 have reached the same conclusion as outlined in my provisional decision and for the same reasons.

I appreciate that PayPal may've explained to Mr H on occasion that his bank had retrieved the funds rather than crediting him from his own pocket. However, in the calls I have listened to, PayPal only managed to confuse Mr H further. PayPal has suggested Mr H take this up with his bank, and he may be able to do that, but it does not absolve PayPal of responsibility as the finance provider in this equation. Mr H essentially has a dispute about a payment. Although thus far he has retrieved the funds paid towards those goods in a roundabout and temporary way (as the funds are now to be returned), PayPal is the financial business with potential liability for the faulty goods as it has provided the credit facility that Mr H used to purchase those goods.

Further, I will re-iterate that I do not expect a customer to know the ins and outs of payment disputes. Mr H has not been provided with clear information that would help him understand how to proceed with his dispute at any point from PayPal. It did, to an extent, justify why it was charging him but failed to address the underlying issue and assist him in understanding why he owed those funds and what he can do about his dispute. This is particularly harmful when a debt is owed. It is for this reason and those listed in my provisional decision, that I find Mr H should be paid £250 for the distress and inconvenience caused.

I would like to explain to Mr H that he is still able to raise a Section 75 claim to PayPal – it is not too late to do so. This legislation has its own criteria which PayPal will need to consider before letting him know whether it is willing to accept liability for the amount paid towards the goods.

I appreciate Mr H feels PayPal has been unhelpful, obstructive and failed to collaborate with him. This has been reflected in the award already made and I see no reason to amend my outcome as outlined in my provisional decision.

My final decision

My final decision is that I find Mr H owes the disputed funds but PayPal UK Ltd trading as PayPal should pay Mr H £250 for distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 7 July 2025.

Vanisha Patel
Ombudsman