

The complaint

Mr P is unhappy with how PayPal UK Ltd administered a revolving credit account.

What happened

Around April 2023 Mr P entered into a revolving credit account 'PayPal credit' with PayPal.

In September 2024 Mr P purchased a laptop for a cost of £1,479.98 from a company I'll refer to as 'S'. He said he chose to use the option to use PayPal to repay the amount over 24 instalments of £72.27. The APR was at a promotional rate of 16.9%. The general rate of interest for purchases on his PayPal credit account was 21.9% APR.

Mr P then says he was surprised to realise that the amount had been added to the balance of his PayPal credit account. He said this didn't make sense as he thought he would be paying separately for the laptop from his bank account.

Mr P says this meant he was charged an additional £72.27 a month on top of his usual PayPal credit repayment. And he said the situation meant he would be paying for the laptop twice.

Mr P says PayPal were blocking him from repaying the outstanding balance in relation to the laptop. So, he says he decided to pay the full balance of the laptop directly to S. He said S then sent these funds to PayPal but the instalment plan remained in place which he was unhappy with.

Mr P complained to PayPal.

PayPal issued a final response in November 2024. This said, in summary, that Mr P's complaint was resolved when a payment was successfully made in relation to a 'credit card'.

A few days later PayPal issued a second final response. This said, in summary, that the issue was resolved, as Mr P was able to log into his account.

PayPal then issued a third final response at the beginning of December 2024. This said, in summary, that PayPal allocated any payments to the account to balances with the highest interest rate first. It explained that Mr P's account had a 'retail balance' that was at a higher rate of interest than the instalment plan – so it allocated repayments to this first.

Mr P remained unhappy and referred the complaint to our service. He reiterated that he thought the funds from S should've cleared the instalment plan.

Our investigator issued an opinion. She said, in summary, that she hadn't seen evidence a separate credit agreement should've been set up. She said PayPal had acted reasonably when it allocated the funds from S to Mr P's general outstanding balance. But, she said the customer service from PayPal fell short of what Mr P could've expected and said it should pay him £50 to reflect this.

PayPal accepted the recommendations made.

Mr P didn't accept. He said, in summary, that he acquired the laptop on an instalment plan, not on his PayPal credit account. He said PayPal had blocked him from repaying the balance. And he said he didn't think the investigator had reviewed the evidence he'd sent in.

Mr P later said no promotional offer was available at the time he purchased the laptop. He said he had issues getting an answer from PayPal when he questioned what happened. He said nothing during the checkout process made him question this wouldn't be a "*normal instalment plan*". Mr P mentioned some health issues he's been having, which he said the stress of the situation had made worse. And he went over some spending habits and how he generally used the account.

Our investigator explained this didn't change her opinion. As Mr P remained unhappy, the case 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.

Having done so, I think this complaint should be upheld in part.

Mr P has written in considerable length about this issue and has gone into a lot of detail about specific points on multiple occasions. I hope he won't find it disrespectful that I will not echo the length of his submissions in my decision.

Where I haven't commented on a specific point, this doesn't mean I haven't considered it, nor that I find it unimportant. I'd like to reassure Mr P, and PayPal, that I've reviewed all of the information and evidence in relation to the complaint. But I'm going to focus my decision on the key facts and what I consider to be the crux of the complaint. This reflects the informal nature of our service.

While Mr P says he expected the instalments to be simply taken from his bank account, I haven't seen anything that suggested this would be the case, nor that a separate credit agreement would be set up for the purchase with S.

At the point he got the laptop, Mr P had already entered into an agreement with PayPal for a PayPal credit facility. Having reviewed everything, I'm satisfied Mr P chose to use the facility to purchase the laptop under an instalment plan.

Mr P says PayPal should've used the funds that were returned from S to cancel the instalment plan, leaving the balance exactly as it was previously. I think this is the crux of this complaint and can be boiled down to a key question, which is what should PayPal have done when it received the funds from S?

It seems there were two options here. Firstly PayPal could, as Mr P wished, have used the funds to repay the instalment plan on the account which was set at the promotional rate of 16.9% APR. Or, it could've reduced the general balance of the account, which was at 21.9% APR, which is what it did.

Looking at the terms and conditions of the account, these explain under 'Allocation of Payments':

"we will apply your payment to outstanding amounts on your statement in the following order:

A. first, to any Promotional Purchase Offer Transaction Payment Amounts due, then to

B. the Standard Balance; then to

C. any Promotional Balance; then to

D. any other balance shown on this statement

In each category, payments will be allocated in order from the balance subject to the highest interest rate to the balance subject to the lowest interest rate.”

So, I'm satisfied PayPal acted in line with its terms and conditions when it allocated the funds from S to the 'standard balance'. However, this doesn't tell the whole story. I still need to consider its obligations set out by the Financial Conduct Authority, along with what would be fair and reasonable.

Having thought about this, under the specific circumstances of this case, I still think PayPal acted reasonably by allocating the funds from S to the general balance. I say this as this was the part of the account with the highest interest rate. I know how strongly Mr P feels about this. And I've carefully considered all of his arguments. But, allocating funds to the general balance would mean the overall interest rate paid by Mr P under the agreement was lower. So, I'm satisfied PayPal acted reasonably.

Mr P provided a screenshot of some terms and conditions that appear to explain payments would be allocated first to any instalment plan. However, PayPal has explained these terms are from a different product which is not available in the UK. So, this doesn't change my opinion.

I appreciate Mr P has explained the monthly payments due under the instalment plan are higher than the minimum payments would've been on his general balance. But he hasn't explained these are unaffordable. And this situation will lead to him repaying the balance over a shorter period. So, I don't think PayPal needs to take any action here. If Mr P is struggling to make these repayments, it might be prudent to contact PayPal directly about this.

I've also carefully considered what Mr P said about being charged twice for the laptop. But, in simple terms, I can't see this was the case.

Mr P paid for the laptop using his PayPal credit account and the balance was added to the account. Mr P then paid S for the laptop directly. I can see a return of funds was processed from S to PayPal. Mr P has shown a screenshot of his PayPal credit account with a total balance of around £3,150 prior to S sending PayPal the funds, and a total balance of around £1,660 following.

So, when the funds were sent by S to PayPal the total balance on the account was lowered by the same amount. This is what I would expect to see, and I can't see Mr P is at a loss here.

Mr P said he believed a copy of the terms and conditions from the credit account should've been shown up front at the time he chose the method of payment for the laptop, including what the allocation of future payments towards the agreement would look like. Firstly, I think in practical terms this amount of information might have been confusing if it appeared in a small window at this point. But secondly, the key thing is that Mr P had already agreed to these terms at the time.

I want to again reassure Mr P that I've carefully considered everything else he's said in relation to the complaint and I've reviewed all the evidence he's submitted. But, under the

specific circumstances of this case, I can't see PayPal did anything wrong when it set up the instalment plan or allocated the payment received from S to the account.

That being said, I agree with our investigator that the service provided by PayPal following this fell short of what it should've been. Specifically how PayPal handled and responded to Mr P's complaint isn't a regulated activity. But, I'm satisfied part of what went wrong here when Mr P questioned what happened was simply PayPal providing customer service in relation to the credit account. I think it should've done better when explaining to Mr P what happened and why the payments had been allocated as they were. I think this must have been frustrating for Mr P. And I find PayPal should pay him £50 to reflect this.

My final decision

My final decision is that I uphold this complaint.

I instruct PayPal UK Ltd to pay Mr P £50.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 15 July 2025.

John Bower
Ombudsman