

Complaint

Miss M has complained that PayPal UK Ltd (“PayPal”) irresponsibly provided a credit account to her. She says that the credit account should only have been offered for short term lending.

Background

In August 2018, PayPal provided Miss M with a credit account with a credit limit of £400. The credit limit on this facility was never increased.

In March 2025, Miss M complained saying that the credit account was unaffordable and led to ongoing difficulty particularly as the limit wasn’t reviewed.

PayPal didn’t uphold Miss M’s complaint as it believed that it didn’t do anything wrong either when providing the credit account, or in the period Miss M had it. Miss M remained dissatisfied after PayPal’s response and referred her complaint to our service.

One of our investigators reviewed what Miss M and PayPal had told us. He wasn’t persuaded that PayPal failed to act fairly and reasonably either when initially providing Miss M with her credit account, or allowing her to use it in the way that she did. This meant that the investigator didn’t recommend that Miss M’s complaint be upheld.

Miss M disagreed with the investigator’s conclusions and asked for an ombudsman to look at her complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Basis for my consideration of this complaint

There are time limits for referring a complaint to the Financial Ombudsman Service. PayPal has argued that Miss M’s complaint was made too late because she complained more than six years after the decisions to provide the credit account and the credit limit increases; as well as more than three years after she ought reasonably to have been aware of her cause to make this complaint.

Our investigator explained why it was reasonable to interpret the complaint as being one alleging that the relationship between her and PayPal was unfair to her as described in s140A of the Consumer Credit Act 1974 (“CCA”). He also explained why this complaint about an allegedly unfair lending relationship had been made in time.

Having carefully considered everything, I’ve decided not to uphold Miss M’s complaint. Given the reasons for this, I’m satisfied that whether Miss M’s complaint about the specific lending decisions was made in time or not has no impact on that outcome.

I'm also in agreement with the investigator that Miss M's complaint should be considered more broadly than just those lending decisions. I consider this to be the case as Miss M has not only complained about the decision to lend but has also alleged that the repayments unfairly caused her continued financial difficulty as she struggled to make her payments which affected her going forward.

I'm therefore satisfied that Miss M's complaint can therefore reasonably be interpreted as a complaint about the fairness of her relationship with PayPal. I acknowledge PayPal may still disagree that we can look at Miss M's complaint, but given the outcome I have reached, I do not consider it necessary to make any further comment or reach any findings on these matters.

In deciding what is fair and reasonable in all the circumstances of Miss M's case, I am required to take relevant law into account. As, for the reasons I've explained above, I'm satisfied that Miss M's complaint can be reasonably interpreted as being about the fairness of her relationship with PayPal, relevant law in this case includes s140A, s140B and s140C of the CCA.

S140A says that a court may make an order under s140B if it determines that the relationship between the creditor (PayPal) and the debtor (Miss M), arising out of a credit agreement is unfair to the debtor because of one or more of the following, having regard to all matters it thinks relevant:

- any of the terms of the agreement;
- the way in which the creditor has exercised or enforced any of his rights under the agreement;
- any other thing done or not done by or on behalf of the creditor.

Case law shows that a court assesses whether a relationship is unfair at the date of the hearing, or if the credit relationship ended before then, at the date it ended. That assessment has to be performed having regard to the whole history of the relationship. S140B sets out the types of orders a court can make where a credit relationship is found to be unfair – these are wide powers, including reducing the amount owed or requiring a refund, or to do or not do any particular thing.

Given Miss M's complaint, I therefore need to think about whether PayPal's decision to lend to Miss M, or its later actions resulted in the lending relationship between Miss M and PayPal being unfair to Miss M, such that it ought to have acted to put right the unfairness – and if so whether it did enough to remove that unfairness.

Miss M's relationship with PayPal is therefore likely to be unfair if it didn't carry out reasonable enquiries into Miss M's ability to repay in circumstances where doing so would have revealed the credit account to be irresponsible or unaffordable. And if this was the case, PayPal didn't then remove the unfairness this created somehow.

I've considered Miss M's complaint in this context.

Our typical approach to irresponsible and unaffordable lending complaints

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Miss M's complaint.

Bearing in mind Miss M's response to our investigator, I think that it would be helpful for me to set out that we consider what a firm did to check whether any repayments to credit were

affordable (asking it to evidence what it did) and then determine whether this was enough for the lender to have made a reasonable decision on whether to lend.

Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

That said, I think that it is important for me to explain that our website does not provide a set list of mandated checks that a lender is expected to carry out on every occasion. Indeed, the requirements have not and still do not mandate a list of checks that a lender should use. Any rules, guidance and good industry practice in place over the years has simply set out the types of things that a lender could do when considering whether to lend to a prospective borrower.

It is for a lender to decide which checks it wishes to carry out, although we can form a view on whether we think what was done was fair to the extent it allowed the lender to reasonably understand whether the borrower could make their payments. Furthermore, if we don't think that the lender did enough to establish whether the repayments that a prospective borrower might have to make were affordable, this doesn't on its own mean that a complaint should be upheld.

We would usually only go on to uphold a complaint in circumstances where we were able to recreate what reasonable checks are likely to have shown – typically using information from the consumer – and this clearly shows that the repayments in question were unaffordable.

PayPal's decision to provide Miss M with a credit account which had a credit limit of £400 in August 2018

PayPal says it initially agreed to Miss M's application after it obtained information on her income, some information on her expenditure and carried out a credit search. And the information obtained indicated that Miss M would be able to make the monthly repayments that could be due for this credit account.

On the other hand, Miss M says that the credit account was unaffordable and led to hardcore borrowing which created ongoing difficulty.

I've considered what the parties have said.

What's important to note is that Miss M was provided with a revolving credit facility not a loan. Bearing in mind Miss M's initial complaint, I think it's worth me emphasising that this credit account wasn't a short-term loan only suitable for short-term use. As this was a revolving credit facility this means that PayPal was required to understand whether Miss M could repay £400 within a reasonable period of time. It's fair to say that the required monthly payments in order to clear the full amount that could be owed, as a result of a credit limit of £400, were low.

I've seen records of the information PayPal obtained from Miss M about her income and expenditure as well as what was on the credit search carried out. Having looked at the record of Miss M's application, it looks like she declared that she received at least £1,500.00 a month and had monthly expenses of no more than £1,000.00. The credit search showed

that Miss M didn't have any significant adverse information - such as defaulted accounts or county court judgments - recorded against her, at this time, either.

PayPal argues that the information that Miss M declared combined with the information from the credit search meant that it was reasonable to conclude that Miss M could afford this credit account. Having reviewed the information obtained, bearing in mind the low monthly repayments required to clear a balance of £400 within a reasonable period of time and the credit check suggesting that Miss M was in a stable financial position, I'm in agreement with this conclusion.

As this is the case, I'm satisfied that it wasn't unfair for PayPal to offer Miss M a credit account with an initial limit of £400 in August 2018.

Did PayPal allow Miss M to use her account in a way that was unsustainable or otherwise harmful for her?

Miss M has also said that PayPal acted unfairly towards her as it continued to allow her to use this credit account even though she wasn't using for short term lending and annual reviews of her account would have shown this. As I've previously explained, Miss M was provided with a credit account not a short-term loan. So she had an agreement where she was able to continue using the facility without reapplying for funds.

Equally, while Miss M has referred to annual account reviews, this is a measure that is primarily reserved for overdrafts and there wasn't an automatic requirement to review revolving credit accounts in the same way. This is particularly as this facility was not provided on a bank account and therefore PayPal simply wouldn't have access to the same level of information that Miss M's current account provider did.

Nonetheless, from what I've seen, Miss M did notify PayPal that she was having difficulty making the payments to her credit account. When a lender becomes aware, or it ought reasonably to be aware, that a borrower is experiencing difficulty making their payments, I think that it is fair and reasonable to expect it to exercise forbearance and due consideration, in line with its regulatory obligations.

The correspondence log I've been provided with shows that there were discussions about Miss M's arrears and PayPal signposted her to debt advisors that might be able to help. I'm satisfied that this was a reasonable first step to Miss M's apparent difficulty. From what I've been able to see numerous attempts were made to set up affordable payment arrangements to bring Miss M's account up to date.

In 2023, PayPal ceased charging interest on Miss M's account. It's unclear why it stopped charging interest at this point, when it wasn't able to set up a payment plan with Miss M until January 2024. Nonetheless, regardless of its reasons for doing so, PayPal's decision to cease charging interest meant that it did exercise forbearance.

I appreciate that Miss M is unhappy that PayPal has reported adverse credit information to credit reference agencies. However, I don't think that it is unreasonable for PayPal to have done this. Particularly as Miss M was in arrears and a lender exercising forbearance doesn't mean that it should report that a customer is up to date with their payments.

Indeed, PayPal reporting that Miss M was up to date with her payments when she clearly was not, would arguably have been counterproductive and not in Miss M's interests or that of any future lender. This is especially as it would have increased the chances of her being able to access further credit which she says she couldn't afford as part of her submissions on this complaint..

In these circumstances and considering everything in the round, while I appreciate that Miss M disagrees, I'm satisfied that PayPal's response to Miss M's account usage and payment difficulties was fair and reasonable in the circumstances.

Overall, and based on the available evidence I don't find that Miss M's relationship with PayPal was unfair. I've not been persuaded that PayPal created unfairness in its relationship with Miss M by irresponsibly lending to her whether when initially agreeing to provide her with a credit account, or in allowing her to use the account in the way that she did. Based on what I've seen, I don't find PayPal treated Miss M unfairly in any other way either.

So while I can understand Miss M's sentiments and appreciate why she remains unhappy, I'm nonetheless not upholding this complaint. I appreciate this will be very disappointing for Miss M. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 16 March 2026.

Jeshen Narayanan
Ombudsman