

The complaint

Ms M complains that PayPal UK Ltd trading as PayPal lent irresponsibly when it approved her credit card application and later increased the limit.

What happened

Ms M applied for a PayPal credit card in June 2020. In her application, Ms M said she was working part time and had a monthly net income of between £500 and £1000. Ms M also confirmed she was a tenant with rent of between £1 and £500 a month. PayPal carried out a credit search and found no evidence of arrears, defaults or other adverse credit. A credit scoring process was also completed. PayPal approved Ms M's application and issued a credit card with a limit of £1,500.

Ms M used her credit card and PayPal went on to increase the limit to £2,500 in July 2021 and £3,500 in January 2022. The credit card was closed at the end of 2024.

More recently, Ms M complained that PayPal lent irresponsibly when it approved her credit card application and increased the limit. PayPal issued a final response and said it had carried out the relevant lending checks before approving Ms M's application and increasing the limit and didn't agree it lent irresponsibly.

An investigator at this service looked at Ms M's complaint. They didn't think PayPal showed it completed reasonable and proportionate checks before approving Ms M's application or increasing the limit. So the investigator looked at Ms M's bank statements for the months before each lending decision to get a clearer picture of her circumstances at the time. The investigator thought Ms M's bank statements showed she was able to sustainably afford the initial credit limit of £1,500. But the investigator thought Ms M's bank statements showed she didn't have sufficient funds available to sustainably afford the credit limit increases and upheld her complaint from that point. The investigator asked PayPal to refund all interest, fees and charges applied to balances over £1,500 from July 2021.

PayPal didn't respond to the investigator's view of Ms M's complaint. Ms M asked to appeal and said that while she was pleased the investigator upheld her complaint about the credit limit increases, she remained of the view that the decision to approve her application was irresponsible. Ms M explained her income was made up of part time employment, student loan instalments and a bursary which was restricted to educational use. Ms M also pointed out her current account was consistently overdrawn and that she was relying on it to make ends meet. As Ms M asked to appeal, her complaint has been passed to me to make a decision.

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.

Before agreeing to lend or increasing the credit limit, the rules say PayPal had to complete reasonable and proportionate checks to ensure Ms M could afford to repay the debt in a

sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I've set out above the information PayPal's told us it considered when assessing Ms M's application. I can see broad questions about Ms M's income and rent were asked. And I can see a credit search was completed. But the lending data provided doesn't show how PayPal considered Ms M's wider circumstances including her general living expenses and regular outgoings. In the circumstances, I agree with the investigator's view that evidence of reasonable and proportionate lending checks isn't on file. As a result, I think PayPal should've considered more detailed lending checks. One option would've been to look at Ms M's bank statements to get a clearer picture of her circumstances in the three months before the credit card was approved.

As Ms M has told us, she was working part time and in receipt of student loan instalments and a bursary. Ms M's confirmed the bursary was intended for educational purposes only. I've disregarded the bursary from my review. Ms M's forwarded copies of bank statements for her sole and joint accounts with household expenses generally being taken from the joint account. Whilst I can see Ms M's income was variable due to part of it being made up of a student loan instalment, I think her bank statements show she was in a reasonably stable position. Ms M was making payments to the joint account that varied depending on the income she was receiving. For instance, in March 2020 there was no payment from Ms M's sole account to the joint account. But in May 2020 Ms M paid £1,500 to the joint account for household costs. I want to assure Ms M I've taken the information shown in her bank statements, including the variable nature of her income, into account when looking at the decision to approve her application.

In my view, Ms M's bank statements show her remaining income was sufficient to sustainably cover repayments to a new credit card with a limit of £1,500. I can see Ms M did use her overdraft facility consistently during this time. But I think that's, in part, due to the variable nature of her income. I haven't been persuaded that Ms M's overdraft use would've been a barrier to PayPal approving her application.

Taking all the available evidence into account, I think it's more likely than not that more detailed lending checks by PayPal would've still led to it approving Ms M's application and issuing a credit card with a limit of £1,500. I'm very sorry to disappoint Ms M but I haven't been persuaded PayPal lent irresponsibly when it approved her application.

I've gone on to look at the two credit limit increases PayPal approved. I haven't seen anything that shows PayPal sought to use updated income figures or verify the level Ms M was receiving at the time. Given the level of credit limit increase, I think PayPal should've considered additional lending checks on each occasion before deciding to proceed. Again

I've reviewed Ms M's bank statements for the three months before each credit limit increase to get a clearer picture of her circumstances.

I found that before the credit limit increase to £2,500 in July 2021 Ms M had a disposable income of around £130 a month after covering her existing outgoings. And before the credit limit increase to £3,500 in January 2022 I found Ms M's outgoings were already higher than her income on average by around £150. I think Ms M's bank statements show she was already at or over her capacity in terms of her regular outgoings and that she was unlikely to be able to sustainably afford the additional borrowing. In my view, more detailed lending checks by PayPal would most likely have found Ms M wasn't in a position to afford either credit limit increase and led it to take the decision not to proceed. As I haven't been persuaded PayPal lent responsibly when increasing Ms M's credit limit I'm upholding her complaint from that point and directing a refund of all interest, fees and charges applied to balances over £1,500 from July 2021.

Ms M's also explained she experienced problems when she contacted PayPal while experiencing financial difficulties. I can see we upheld a complaint about the lack of support provided when Ms M contacted PayPal for assistance in 2023. PayPal agreed to remove any adverse information recorded on Ms M's credit file and pay her £100 in recognition of the distress and inconvenience caused. I'm not going to look at those issues again but I note that the credit report Ms M has sent us shows her PayPal credit card closed at the end of 2024 with no missed payments or adverse credit recorded. I haven't seen anything else that indicates PayPal treated Ms M unfairly.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Ms M in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My decision is that I uphold Ms M's complaint and direct PayPal UK Ltd trading as PayPal to settle as follows:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £1,500 after July 2021.
- If the rework results in a credit balance, this should be refunded to Ms M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. PayPal should also remove all adverse information recorded after July 2021 regarding this account from Ms M's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,500, PayPal should arrange an affordable repayment plan with Ms M for the remaining amount. Once Ms M has cleared the outstanding balance, any adverse information recorded after July 2021 in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires PayPal to deduct tax from any award of interest. It must give Ms M a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 24 December 2025.

Marco Manente
Ombudsman