

The complaint

Miss M complains that PayPal (Europe) Sarl et Cie SCA lent to her irresponsibly.

What happened

In March 2018, Miss M opened a PayPal Credit account and was given a limit of £1,500. In November 2019 PayPal increased her limit to £2,500. Miss M says if PayPal had properly assessed her application, it ought to have refused to open the account and shouldn't have increased her limit. She complained to PayPal saying it had acted irresponsibly by lending to her.

PayPal looked into her complaint. It said it had followed its normal procedures in assessing her application for credit. It used the information she provided on the application form along with evidence obtained from credit reference agencies, and details it held for Miss M's existing PayPal account. None of the information it obtained gave it any concerns and PayPal felt it had lent to her responsibly. PayPal rejected Miss M's complaint.

Miss M didn't accept what PayPal said, so she referred her complaint to our service and one of our investigators looked into it. She felt that PayPal had carried out reasonable and proportionate checks and acted fairly by opening the account with a £1,500 limit. She said PayPal ought to have carried out more checks prior to offering the limit increase, as Miss M had missed payments and already exceeded the initial limit. After obtaining further evidence from Miss M however, she felt even if PayPal had carried out further checks, it would have still been likely to agree the limit. Our investigator didn't uphold Miss M's complaint.

PayPal accepted what our investigator said, but Miss M didn't. As there was no agreement, the complaint has been passed to me for 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.

We've set out our approach to complaints about irresponsible and unaffordable lending on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

PayPal needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Miss M irresponsibly. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- Did PayPal carry out reasonable and proportionate checks to satisfy itself that Miss M was in a position to sustainably repay the credit?
 - If not, what would reasonable and proportionate checks have shown at the time?
- Did PayPal make a fair lending decision?

- Did PayPal act unfairly or unreasonably towards Miss M in some other way?

PayPal had to carry out reasonable and proportionate checks to satisfy itself that Miss M would be able to repay the loan sustainably. It's not about PayPal assessing the likelihood of it being repaid, but it had to consider the impact of the repayments on her.

Did PayPal carry out reasonable and proportionate checks to satisfy itself that Miss M was in a position to sustainably repay the credit?

Initial lending decision

PayPal gathered information from Miss M from her application for credit. She told it she earned between £1,500 - £2,000 per month and was living with her parents. She declared monthly expenses of up to £500 per month. PayPal then checked Miss M's credit file and its own credit scoring system which reflects the data found on credit reference agencies. It also looked at how she'd used her existing PayPal 'Wallet' account.

PayPal had no concerns about what it found as a result of the checks it carried out and was happy to accept the application with a limit of £1,500. I think the checks it carried out were a reasonable and proportionate way for PayPal to assess Miss M's initial application for credit.

Limit increase

Around 18 months later, Miss M was offered an increase in her limit to £2,500 which she accepted. But at the time, her balance was already in excess of the lower agreed limit by some £600 and she was only paying minimum payments to the account. She'd also been late with 5 payments over the period too. PayPal was satisfied Miss M had passed the criteria for a limit increase, but it seems a strange decision to be made without further checks, given the circumstances I've just outlined.

Before granting an increase of £1,000, I think PayPal ought to have asked more questions to check Miss M would be able to sustainably repay it. She appeared to be struggling to stay within the current limit and keep up with payments. It follows that I don't think it carried out reasonable and proportionate checks for the limit increase.

I've thought about what PayPal might have found if it had carried out further checks before offering the limit increase. There is no set list of checks businesses have to do, but it might, for example, have asked to see Miss M's bank statements to obtain a better understanding of her financial circumstances.

Miss M provided us with bank statements and I've carefully reviewed them. They show her monthly income is in line with that which she disclosed to PayPal at the outset. There is no evidence of priority bills such as rent, mortgage, council tax etc, and that is in line with her declaration that she was living at home with her parents. Miss M did make some payments to other creditors, but the vast majority of Miss M's spending appears to be discretionary.

In my view, if PayPal had asked further questions of Miss M before offering the limit increase, it would have been unlikely to conclude the repayments would have been unsustainable for her. I think it most likely, it would have reached the same lending decision.

Did PayPal make a fair lending decision?

I've already said that I think the initial decision to lend was fair. And, while I've explained it ought to have done more in terms of checks, I don't think doing so would have led to PayPal reaching a different decision regarding the increase. Overall, taking into account all the

circumstances, I think PayPal has reached fair decisions to lend.

Did PayPal act unfairly or unreasonably towards Miss M in some other way?

I've carefully read, listened to and thought about all the evidence provided by each party to this complaint. Having done so, I don't think PayPal has acted unfairly or unreasonably towards Miss M in some other way.

My final decision

For the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 1 September 2023.

Richard Hale
Ombudsman