

The complaint

Mr W complains that PayPal (Europe) Sarl et Cie SCA irresponsibly gave him a running account credit agreement he couldn't afford to repay.

What happened

In November 2020, Mr W applied for a credit account with PayPal. He was given an initial credit limit of £2,000. In April 2022, Mr W accepted an offer from PayPal to increase his credit limit to £3,000.

Mr W complained to say that he should never have been given the account or the limit increase. He said that had appropriate checks been carried out PayPal would have seen the credit was unaffordable to him. PayPal didn't think it had acted unfairly in lending to Mr W.

Our investigator said we didn't have jurisdiction to consider the decision to open the account and provide the initial credit limit, but we could consider the complaint about PayPal's decision to increase the credit limit in April 2022. Both Mr W and PayPal accepted that outcome.

The investigator didn't think PayPal had completed reasonable and proportionate affordability checks when it increased Mr W's credit limit. However, she thought that even if it had completed more thorough checks, it wouldn't have likely found any affordability concerns.

PayPal accepted that outcome, but Mr W didn't. In summary, he said that PayPal should have been able to see he was consistently using overdraft borrowing up to £2,000 and that he had only been making minimum payments on his existing credit, including the PayPal account.

The complaint has been passed to me for a final 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.

Both Mr W and PayPal have accepted that we can't consider Mr W's complaint about the account opening. For completeness, I'm satisfied we don't have jurisdiction to consider that part of Mr W's complaint, for broadly the same reasons given by our investigator. I've therefore only considered Mr W's complaint about PayPal's decision to increase his credit limit by £1,000 (to a total of £3,000) in April 2022.

Before lending to Mr W (including significantly increasing his credit limit), PayPal were required to complete proportionate affordability checks. What is considered proportionate will vary with each lending decision. In deciding what would be proportionate, PayPal needed to take into account several factors including, but not limited to: the amount of credit, the size of any regular repayment, the cost of the credit and the consumer's circumstances.

PayPal says that before offering Mr W the credit limit increase, it completed a credit check and used information it already held about Mr W's circumstances to determine the affordability of the new limit. This included how he had managed his PayPal credit account and the information he had supplied when the account was opened.

As the account had been opened around a year and half earlier, I don't think it was reasonable for PayPal to assume Mr W's income had stayed the same in that time. I think it ought to have taken steps to verify what he earned at that time. I'm also concerned about the information PayPal provided in relation to its credit checks. It says the checks showed Mr W had a mortgage as well as a number of other credit commitments. It says it calculated Mr W's monthly payments towards his credit commitments at around £460 per month. But the monthly mortgage payment on its own was around £555. Clearly, what PayPal had calculated at the point of application was inaccurate or it has provided our service with inaccurate information about the checks it completed.

PayPal hasn't provided a detailed copy of the credit checks it completed – only a brief summary of what it considers to be relevant. So, I've relied on information Mr W has provided, in the form of his bank statements, to determine what PayPal likely saw in the credit checks. I can see that Mr W held two loans with combined monthly repayments of around £460. This appears to be the figure PayPal provided our service with. But as well as his mortgage, it's clear Mr W also held at least five other credit commitments, most of which appear to have been revolving credit facilities.

Given I think PayPal likely saw this (its own checks show Mr W had a large debt to income ratio), I don't think the affordability checks it did went far enough. This is because there were signs to suggest it was likely that Mr W was already overindebted. I think proportionate checks ought to have included verifying Mr W's committed expenditure as well as his income.

I don't know what further checks PayPal would have completed, but in the absence of it having done anything, I've relied on Mr W's bank statements to determine what it would likely have found out. I'm not suggesting PayPal needed to manually review Mr W's bank statements before increasing his credit limit, but I think the information contained in them is most likely to represent what PayPal would have discovered if it had completed proportionate affordability checks before lending.

I've seen that Mr W's monthly income was around £3,300, he also received around £200 per month in child benefit into the account. I've seen that Mr W's regular committed bills and credit commitments were around £2,300 per month. This therefore left him with around £1,200 each month for food and other household/living essentials. I've not seen anything to persuade me that this would have been insufficient to meet his regular, non-discretionary expenditure.

I note Mr W says – and I can see – that he was regularly utilising his overdraft. However, Mr W's account did also go into credit each month when his salary was paid. And it appears from the account activity that he had sufficient disposable income to be able to afford to gradually reduce his reliance on overdraft borrowing each month even with the credit limit increase from PayPal. I've therefore not seen anything to make me think that more thorough affordability checks would have shown to PayPal that the credit limit increase would likely be unaffordable to Mr W. For this reason, I don't think it acted unfairly or unreasonably when it increased his limit in 2022.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 30 January 2024.

Tero Hiltunen
Ombudsman