

The complaint

Miss A believes PayPal (Europe) Sarl et Cie SA acted irresponsibly by agreeing two revolving credit accounts she'd applied for, and by increasing the credit limits on one of these accounts.

What happened

On 8 March 2018, Miss A opened a revolving credit account with PayPal. They provided her with a credit limit of £250 which was increased to £500 on 31 May 2019, and again to £550 on 31 December 2019. The minimum payment on this account was the greater of £5 or 1% of the outstanding balance i.e. £5 a month when the limits were £250 and £500, rising to £5.50 a month if Miss A used the full £550 limit.

This account was closed on 7 May 2021. Miss A had maintained payments to this, without going into arrears, for the lifetime of the account.

On 19 September 2021 she opened a second revolving credit account with PayPal and was provided with a credit limit of £1,500. The minimum payment on this account was set as the greater of £5 or 2% of the outstanding balance i.e. £30 a month if Miss A used the full £1,500 limit.

Miss A stopped making payments in April 2022. In September 2022, when six consecutive payments had been missed, PayPal defaulted the account.

Miss A has complained that PayPal didn't act responsibly when approving the accounts or credit limit increases. She's said she had a poor credit history and the high interest rates meant that she was only ever able to afford the minimum payments. She's also unhappy that, now she's unable to make any payments to PayPal, they are "*harassing*" her and charging late fees, all of which has adversely affected her health. PayPal didn't agree they'd acted irresponsibly, so Miss A brought her complaint to us for investigation.

Our investigator said that, while PayPal had conducted a credit check prior to each application or credit limit increase, these didn't show any cause for concern. They'd calculated Miss A's affordability based on the mid-point of a declared income and expenditure range and, taking the lowest point of the declared income range, and the highest point of the declared expenditure range (for the first application and subsequent credit limit increases) this would've meant that Miss A didn't have sufficient disposable income to sustainably repay any credit limit she used. So, he didn't think PayPal's checks had been reasonable or proportionate.

However, when the investigator considered Miss A's bank statements at the time of the initial application and subsequent credit limit increases, he said that she had sufficient disposable income to support payments to PayPal. So, he didn't think they'd acted unreasonably by agreeing either the initial application or the subsequent credit limit increases.

With regards to the second application, the investigator again said that PayPal had carried out a credit check that caused no concerns. And that the information provided by Miss A on the application showed she could comfortably afford the payments. So, he thought they'd done reasonable and proportionate checks, and needed to do nothing further.

Miss A didn't agree. And she's asked for an ombudsman to make 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did PayPal complete reasonable and proportionate checks to satisfy itself that Miss A would be able to repay the credit in a sustainable way?
 - a. if so, did PayPal make a fair lending decision?
 - b. if not, would reasonable and proportionate checks have shown that Miss A could sustainably repay the borrowing?
2. Did PayPal act unfairly or unreasonably in some other way?

And, if I determine that PayPal didn't act fairly and reasonably when considering Miss A's application, I'll also consider what I think is a fair way to put things right.

Did PayPal complete reasonable and proportionate checks to satisfy itself that Miss A would be able to repay the credit in a sustainable way?

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the finance being applied for; as well as the borrowers' personal circumstances at the time of each application.

PayPal have said that, as part of every application for credit they receive, they undertake eligibility, creditworthiness, and affordability checks. And they do this by reviewing the customer's credit file and the information disclosed by the customer, including their monthly income and expenditure. They've said they carried out these standard checks for Miss A.

PayPal have also explained that the information they receive from the credit reference agencies is by way of "*a complex data file*" which they haven't been able to provide. However, they have provided details of what they say each credit file request showed in relation to defaulted or delinquent accounts. However, they haven't provided any information relating to Miss A's existing credit commitments at the time of each application / credit limit increase.

In addition to this, PayPal have used Miss A's declaration of her monthly income and expenditure to check affordability. And this declaration had been by way of a range, not an actual figure, for example an income of between £500 and £1,000 a month, and expenditure of between £250 and £500 a month. Given that, for the first application and subsequent credit limit increases, the lower level of income declared is the same as the upper level of expenditure declared, this could feasibly leave Miss A with no disposable income each month. And PayPal haven't evidenced that they've taken any steps to confirm what Miss A's actual monthly income and expenditure were.

So, based on what I've seen and PayPal's comments, even though the initial credit limit was only £250, I'm not satisfied that reasonable checks were carried out. And I think that PayPal should've carried out more checks to establish Miss A's actual income and expenditure, to see whether this account, and all subsequent credit limit increases, were affordable for her.

Would reasonable and proportionate checks have shown that Miss A would be able to repay the credit in a sustainable way?

Miss A has provided a copy of her credit file dated 23 January 2023. While this is dated after any application or credit limit increase, I'm satisfied that the historic data contained within this report will give a good indication of the information PayPal would've received when they checked her credit file.

Miss A has also provided her bank statements for the periods before any application or credit limit increase. While I wouldn't necessarily have expected PayPal to ask for bank statements, I think these statements give a good indication of what PayPal would likely have discovered if they'd asked about Miss A's income and expenditure at the time of each application and credit limit increase.

first agreement – credit limit £250

PayPal approved this application on 8 March 2018. At the time, Miss A's credit file showed she had a credit card with a £700 credit limit. She was also paying two phone providers and a water supplier. All the payments to these had been made and there were no arrears. In addition, the credit file showed that Miss A had a bank account which had been conducted within any overdraft limit. Finally, there were no defaults or county court judgements.

I've considered Miss A's bank statements from 2 December 2017 to 1 March 2018, which is the three-month period immediately prior to the agreement being approved. These show that she received an average income of £899 a month (from benefits). They also show that her average monthly expenditure for water, energy, phones, insurances, the DVLA, TV Licence, and council tax was £257. Miss A has explained that, because she was on benefits, her rent was paid direct to her landlord, and it wasn't something she was responsible for.

The bank statements also show that Miss A wasn't using her credit card.

While I appreciate that Miss A was in receipt of benefits, this isn't a reason why PayPal should've automatically declined her application. And it would be unfair of them to deny her access to credit just for this reason. Instead, I'd expect them to consider her financial circumstances when making any application.

Based on what I've seen, Miss A had £642 disposable income each month from which to pay food, clothing etc., as well as any discretionary bills. And I'm satisfied that was sufficient to support the finance PayPal approved, and from which to repay any outstanding balance in a sustainable way.

first agreement - credit limit increase to £500

PayPal approved this credit limit increase on 31 May 2019. At the time, Miss A's credit file showed she had a credit card with a £700 credit limit, and a loan for which she was paying £92 a month. She was also paying two phone providers, a water supplier, and an insurance company. All the payments to these had been made and there were no arrears. In addition, the credit file showed that Miss A had a bank account which had been conducted within any overdraft limit. Finally, there were no defaults or county court judgements.

I've considered Miss A's bank statements from 1 March 2019 to 31 May 2019, which is the three-month period immediately prior to the credit limit increase being approved. These show that she received an average income of £899 a month (from benefits). They also show that her average monthly expenditure for water, energy, phones, insurances, the DVLA, TV Licence, council tax, and her loan was £324. The bank statements also show that Miss A wasn't using her credit card.

Based on what I've seen, Miss A had £575 disposable income each month from which to pay food, clothing etc., as well as any discretionary bills. And I'm satisfied that was sufficient to support the credit limit increase PayPal approved – especially given that the actual minimum payment didn't change due to this being fixed at at least £5, and from which to repay any outstanding balance in a sustainable way.

first agreement – credit limit increase to £550

PayPal approved this credit limit increase on 31 December 2019. At the time, Miss A's credit file showed she had a credit card with a £700 credit limit, and a loan for which she was paying £92 a month. She was also paying a phone provider, and a water supplier. All the payments to these had been made and there were no arrears. In addition, the credit file showed that Miss A had two bank accounts which had been conducted within any overdraft limits. Finally, there were no defaults or county court judgements.

I've considered Miss A's bank statements from 1 October 2019 to 31 December 2019, which is the three-month period immediately prior to the credit limit increase being approved. These show that she received an average income of £1,905 a month (from benefits). They also show that her average monthly expenditure for water, energy, phones, insurances, the DVLA, TV Licence, council tax, and her loan was £398. The bank statements also show that Miss A wasn't using her credit card.

Based on what I've seen, Miss A had £1,507 disposable income each month from which to pay food, clothing etc., as well as any discretionary bills. And I'm satisfied that was sufficient to support the credit limit increase PayPal approved, and from which to repay any outstanding balance in a sustainable way.

second agreement – credit limit £1,500

PayPal approved this application on 19 September 2021. At the time, Miss A's credit file showed she had three credit cards with a combined £4,900 credit limit and four revolving credit agreements with a combined credit limit of £2,375. She was also paying a phone provider and a water supplier. All the payments to these had been made and there were no arrears. In addition, the credit file showed that Miss A had two bank accounts which had been conducted within any overdraft limits. Finally, there were no defaults or county court judgements.

I've considered Miss A's bank statements from 21 June to 31 August 2021, which is the two and a half months period immediately prior to the agreement being approved. These show that she received an average income of £2,321 a month (from benefits). They also show that her average monthly expenditure for water, energy, phones, insurances, the DVLA, TV Licence, council tax, and her loan was £274. The bank statements also show that Miss A wasn't using any of her credit cards or revolving credit agreements.

Based on what I've seen, Miss A had £2,047 disposable income each month from which to pay food, clothing etc., as well as any discretionary bills. And I'm satisfied that was sufficient to support the credit limit increase PayPal approved, and from which to repay any outstanding balance in a sustainable way.

Did PayPal act unfairly or unreasonably in some other way?

I haven't seen anything to make me think PayPal acted unfairly or unreasonably in some other way.

So, taking all of the above into consideration I'm satisfied that, had PayPal carried out proportionate checks at the time of each application and credit limit increase, they would've seen that the finance was affordable on each occasion. I'm therefore satisfied they acted responsibly when approving the applications / credit limit increases. As such, I won't be asking them to do anything more.

My final decision

For the reasons explained above I don't uphold Miss A's complaint about PayPal (Europe) Sarl et Cie SA.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 23 August 2023.

Andrew Burford
Ombudsman