

The complaint

Mr C complains that PayPal (Europe) Sarl et Cie SCA reinstated his credit account after he repaid the outstanding balance via a debt management plan.

What happened

Mr C opened a credit account with PayPal in 2016. In early 2019 the account fell into arrears and in May 2019 Mr C entered into a debt management plan (DMP) via an organisation I'll refer to as S. Mr C made payments via the DMP which was recorded by PayPal on his credit file until May 2020. Payments continued to be received by PayPal until the balance was cleared in full in March 2022.

In April 2022 Mr C contacted PayPal and asked it to reinstate his credit facility. PayPal says that because the account was up to date, it was reactivated following Mr C's request.

Mr C went on to use his credit facility again and built up an outstanding balance. But because of arrears that accrued, the account was closed in December 2022 and a default was reported on Mr C's credit file.

Mr C raised a complaint and said PayPal had acted unfairly by recording the default on his credit file. PayPal didn't uphold Mr C's complaint.

An investigator at this service looked at Mr C's complaint and ultimately upheld it. Mr C supplied copies of his correspondence with S to show he'd entered into a DMP which included his PayPal account. Mr C added that by allowing him to access credit again, PayPal had let him borrow funds despite knowing he'd previously had significant difficulties repaying them. The investigator said PayPal should remove the default it's reported and agree a suitable repayment plan.

PayPal asked to appeal and said Mr C had repaid the balance in full in March 2022 so it was only fair for access to his account to be returned. As PayPal asked to appeal, Mr C's 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.

In its response, PayPal says it was fair to restore access to Mr C's account after he repaid the outstanding balance in March 2022. But I'm not persuaded that tells the full story. Mr C's balance was repaid on the basis of reduced payments he made via a DMP over an extended period. PayPal was aware Mr C's account had been in arrears and subject to a DMP going back to 2019. Account access was removed on the basis of how Mr C's payments had been made and the DMP he entered into. I'm not persuaded it was fair for PayPal to simply wait for the balance to be repaid before providing access to Mr C's account again without being sure he could afford to sustainably make repayments.

Given the circumstances under which Mr C made repayments under a DMP to the balance from 2019, I'd have expected PayPal to be very sure he could afford to borrow before making credit available again. But no evidence has been supplied that shows PayPal carried out reasonable and proportionate checks to ensure Mr C could afford to sustainably repay any new debt he built up. If PayPal had looked at Mr C's circumstances more closely before agreeing to reinstate his account and lend further funds I think it would've declined to proceed. I'm not persuaded that PayPal treated Mr C fairly when it reinstated access to his account and allowed him to build further borrowing.

The investigator upheld Mr C's complaint and originally asked PayPal to remove the default from his credit file and agree a payment plan. But the investigator recently contacted both parties to explain the settlement should be revised as follows:

- PayPal to refund all interest, fees and charges applied to Mr C's account from April 2022 onwards
- If by reworking the account there is a credit balance due to Mr C, PayPal should refund the difference to him as if they were overpayments and pay 8% simple interest from the date made to the date of settlement
- If by reworking Mr C's account an outstanding balance remains, PayPal should contact Mr C with a view to clearing the outstanding balance by way of an affordable repayment plan
- Once Mr C has repaid the balance in full, PayPal will be obliged to remove all adverse information recorded on his credit file (including all arrears and the default) from April 2022 and mark the debt as settled

I've considered all the available evidence and information. In my view, the above settlement is a fair and reasonable way to resolve Mr C's complaint. So, I'm going to proceed on that basis and uphold Mr C's complaint.

My final decision

My decision is that I uphold Mr C's complaint and direct PayPal (Europe) Sarl et Cie SCA to settle in line with the above guidance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 9 January 2024.

Marco Manente
Ombudsman