

Complaint

Ms R has complained about a credit account PayPal (Europe) Sarl et Cie SCA (“PayPal”) provided to her. She says that she shouldn’t have been approved for the finance or the credit limit increases as she already had other commitments that she was struggling with.

Background

PayPal increased the credit limit on Ms R’s account to £5,000.00 in March 2021 and then £6,000.00 in April 2022.

While Ms R’s account was initially provided in October 2019, we’ve already explained why we’re unable to look at Ms R’s complaint about matters prior to January 2021 and this decision is solely looking at the decisions to increase Ms R’s credit limit in March 2021 and April 2022.

One of our investigators reviewed what Ms R and PayPal had told us. And she thought PayPal hadn’t done anything wrong or treated Ms R unfairly in relation to providing the credit limit increases in February 2021 and December 2021. So she didn’t recommend that Ms R’s complaint be upheld.

Ms R disagreed and asked for an ombudsman to look at the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Ms R’s complaint.

Having carefully considered everything, I’ve not been persuaded to uphold the complaint. I’d like to explain why in a little more detail.

PayPal needed to make sure it didn’t lend irresponsibly. In practice, what this means is PayPal needed to carry out proportionate checks to be able to understand whether Ms R could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

PayPal says it initially agreed to offer Ms R limit increases after it checked her income and carried out credit searches. And the information obtained indicated that Ms R would be able to make the monthly repayments due for these credit limit increases. On the other hand Ms R says that she shouldn't have been lent to.

I've considered what the parties have said about the limit increases.

What's important to note is that Ms R was provided with a revolving credit facility rather than a loan. This means that PayPal was required to understand whether credit limits of £5,000.00 and then £6,000.00 could be repaid within a reasonable period of time, rather than all in one go. It's fair to say that credit limits of this amount required relatively sizeable monthly payments in order to clear the full amount owed within a reasonable period of time.

For these credit limit increases, it appears as though PayPal relied on Ms R's account having been managed well in the years since her account had been opened. In the first instance I should make it clear that it isn't immediately apparent to me how it would automatically be the case that a borrower could afford a higher amount of credit simply because they might not have defaulted on a lower amount.

That said, PayPal's credit checks did indicate that Ms R didn't have recent difficulties with credit in the form of defaults and county court judgements ("CCJ"). It's also fair to say that Ms R wasn't too heavily indebted and was making more than the minimum repayment to her existing creditors too. And by the final limit increase Ms R's external indebtedness had also fallen quite significantly too.

So Ms R's actions in making larger payments and her repayment record did indicate that she might be able to make the payments on higher credit limits. Equally, Ms R had not been maxed out on the facility at the time these limit increases took place either. Nonetheless, given the amount of the likely increased monthly payments, I do think that it would have been reasonable and proportionate for PayPal to find out a bit more about Ms R's regular living costs before offering the credit limit increases. As I can't see that PayPal did this, I don't think that the checks it carried out were reasonable and proportionate.

Ordinarily, where a firm failed to carry out reasonable and proportionate checks before providing credit to a customer, I'd usually go on to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown.

However, Ms R has not provided me with sufficient information that clearly shows that further information on her actual living costs at the time would have shown that she couldn't have afforded to make her payments. Ms R has provided with business account statements for more than one account.

But there isn't anything within this information which clearly contradicts the information PayPal used in relation to Ms R's living costs, or shows that obtaining further information on Ms R's normal living costs would have led to it deciding against it lending to her. In these circumstances, I can't reasonably conclude that PayPal would have made different decisions on lending even if it had asked Ms R for more information.

It's possible that Ms R's position might have been worse than what it looks like, or that it might have worsened after the credit limit increases took place. For example, I've seen what Ms R has said about being newly self-employed at this time and that she was living on credit. I'm sorry to hear that Ms R has found it difficult to make her payments. But it wouldn't be fair and reasonable for me to use hindsight here, or say that PayPal should have known this was the case.

Furthermore, while I appreciate that Ms R says that this was in attempt to try and keep afloat and juggle commitments around, Ms R was making in excess of the minimum payments around the time of the first limit increase. And PayPal's credit checks had shown that her external indebtedness had reduced by the time of the second limit increase too.

So overall while I can understand Ms R's sentiments, I don't think that PayPal treated Ms R unfairly or unreasonably when increasing her credit limit. And I'm not upholding Ms R's complaint. I appreciate this will be very disappointing for Ms R. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding this complaint, I'd like to remind PayPal of its obligation to exercise forbearance and due consideration should it intend to collect on the outstanding balance on Ms R's account and it be the case that she is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm not upholding Ms R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 2 April 2024.

Jeshen Narayanan
Ombudsman