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Risks related to purchasing groups

In the recent months, more and more undertakings organising purchasing groups have been appearing on the market. These undertakings advertise their services in a wide range of media. However, a significant number of the readers of the advertisements are still unfamiliar with the notion of the purchasing group. Therefore a lot of people complain at the Hungarian Competition Authority, the National Authority for Consumer Protection and the Hungarian Financial Supervisory Authority. The three authorities mentioned have prepared a list of the most frequent questions and the answers given to them.

Who belongs to the target audience to be roped in to join the purchasing groups?

Those indigent people who are in a difficult financial situation, who cannot provide certificates of their income, who need immediate financial help and those debtors and pensioners who are not creditworthy in the eyes of the banks, who are on the so-called "BAR-list" (blacklist of banks). However the undertakings organising purchasing groups often offer their services to undertakings as well.

Do I receive loan from the purchasing group?

No. If you borrow money from a bank, you obtain the loan right after the signing of the contract. Purchasing groups cannot provide you with loan.

Why are there a lot of people thinking that they can obtain loan with the help of the purchasing groups?

They think so because the advertisements of the undertakings organising the purchasing groups suggest this. The followings appear in the ads: "purchasing group", "do you need money?" or "without bailer or any certificates of income", but no other information. Based on all these, the reader might think that he or she can get money right away. However, the truth is that the members of the purchasing groups cannot obtain money at all, only purchasing rights.

What is a purchasing group?

We can say that the members of the purchasing groups lend money to each other. Everybody pays regularly a certain sum of money, and then they buy the chosen product (a car, a flat, etc.) for the lucky member from the total sum collected. Lucky or not, the members have to go on paying the fees determined for them until all the members of the group can obtain the product or service desired.

How is it decided who is going to obtain next the desired product or service?

Basically, there are two kinds of decision-making: by means of commitments to pay prepayments and/or by lot. In a given month, the member who committed to pay the most prepayment can obtain the purchasing right. If someone undertakes to pay prepayment, he or she pays in advance a part of the loan that has not even been given to him/her yet. If there are several members undertaking to pay early, then they decide by lot who is going to obtain the purchase right. It might also happen that they only draw lots to be able to choose between each other. In one word, who is lucky, can get the purchase right immediately, who is not, has to wait sometimes even for years to get chosen. It is important to know that the others' prepayments cannot be calculated in advance; hereby the early obtaining of the purchasing right depends on luck – besides on the own financial possibilities of the members.

Are the undertakings that organise these purchasing groups reliable?

Usually the undertakings organising the purchasing groups do not possess the sums mentioned in the advertisements. These undertakings do not even have contacts with banks that would have the sums mentioned. The undertakings organising the purchasing groups are not banks, they cannot provide financial services, they cannot take out loans. Their activities consist purely of organising and operating the purchasing groups. In case the sums paid into the purchasing groups would get lost, neither any authorities nor the courts can compensate the members for the loss.

Can I get cash at all?

No. The purchasing groups do not give you money, but purchasing rights. The value of the car or flat desired is the sum that the advertisements refer to. In contrary to what is suggested in the advertisements, members of the purchasing groups cannot obtain cash, but the proprietary right of the product or service, which is the subject of the contract. If based on the contract the member wishes to use up the required money for buying a car, then if he or she obtains the sum, the member can only buy a car from it. Furthermore, the member does not receive the sum at all, it is the car vendor that is directly given the sum.

When shall I obtain the promised goods?

Since the date of obtaining the purchasing right depends mostly on luck, there is no answer for sure in advance. It can also happen that one can only obtain it by the end of the duration of the contract, after 5, 10 or 15 years.

Does the interest accumulate after each monthly payment?

No. The monthly payments do not carry interests, that is why if a member is not chosen either by means of paying a bigger sum of prepayment or by luck, then he or she will not have any growth – as opposed to savings at a bank – for compensating inflation.

After all these mentioned, is it possible that a member pays for long years, but cannot obtain the flat or the car?

Yes, and unfortunately this is the most typical case.

If I wish to enter such a purchasing group, what shall I consider before joining?

One has to consider whether the membership in a purchasing group is indeed the best way to obtain the desired product or real estate. The possibilities are limited by the value of the purchasing right. It might also happen that a member of a purchasing group can only obtain a purchasing right he or she would like to get by signing several contracts. However in this

case, the dates of obtaining the different purchasing rights might be different, and thus it is impossible to use them all at once.

In case I have already entered a purchasing group and realised that it does not provide any loan for me, can I quit the group?

If a member of a purchasing group changes his or her mind and wishes to cancel the contract within 30 days following the signing of the contract, then except for a sum of approximately HUF 10 000 (about EUR 37), the organising undertaking reimburses the registration fee and the monthly payments to him or her. If the member undertakes to pay “prepayments” by the following general meeting, then he or she can quit until the day of the general meeting. It is worth knowing however that candidate members usually have to pay 1-2 months of payment when signing the contract, hereby the time period for cancelling the contract until the day of the general meeting – which might also take place the day following the signing of the contract – gets shortened. After this 30-day time limit or after the general meeting, the member can only terminate the contract by an ordinary notice. In this case, the registration fee is not reimbursed at all, and the monthly payments are only reimbursed without any interests on the date when the original contract would have expired. The member who has been selected and obtained the required goods cannot terminate the contract by an ordinary notice until he or she has entirely fulfilled all the payment and other obligations determined in the contract.

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Hungarian Competition Authority
Communication Group

Further information:

Andrea ZENISEK

Hungarian Competition Authority

Address: 1054 Budapest, V., Alkotmány u.5.

Postal address: 1245 Budapest, 5. POB. 1036

Tel: +36-1-472-8933

email: press@gvh.hu

<http://www.gvh.hu>