INTERNET AUCTIONS

A GUIDE FOR BUYERS AND SELLERS

FEDERAL TRADE COMMISSION	ftc.gov
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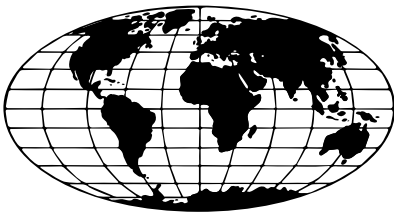
Internet auction sites give buyers a "virtual" flea market with new and used merchandise from around the world; they give sellers a global storefront from which to market their goods. But the online auction business can be risky business.



The Federal Trade Commission (FTC) wants to help buyers and sellers stay safe on Internet auction websites. Among the thousands of consumer fraud complaints the FTC receives every year, those dealing with online auction fraud consistently rank near the top of the list. The complaints generally deal with late shipments, no shipments, or shipments of products that aren't the same quality as advertised; bogus online payment or escrow services; and fraudulent dealers who lure bidders from legitimate auction sites with seemingly better deals. Most complaints involve sellers, but in some cases, the buyers are the subject.

Whether you're a buyer or a seller, understanding how Internet auctions work can help you avoid most problems.

How Internet Auctions Work — Rules of the Marketplace

Role of the Auction Site. Most Internet auction sites specialize in person-to-person activity where individual sellers or small businesses sell their items directly to consumers. In these auctions, the seller — not the site — has the merchandise, and often, the site will not take responsibility for any problems that may arise between buyers and sellers. Before using an Internet auction site for the first time, buyers and sellers should read the Terms of Use, and review any information the site offers.

Registration. Most Internet auction sites require buyers and sellers to register and obtain a "user account name" (or "screen name") and password before they can make bids or place items for bid. Keep your password to yourself. If you share it, another person could access your account and buy or sell items without your knowledge. That could damage your online reputation — and eventually, your bank account.

Fees. Some sites require sellers to agree to pay a fee every time they conduct an auction, whether the item is sold or not. Other sites charge a fee only when an item is sold.

The Auction. Many sellers set a time limit on bidding and, in some cases, a "reserve price" — the lowest price they will accept for an item. When the bidding closes at the scheduled time, the item is sold to the highest bidder. If no one bids at or above the reserve price, the auction closes without the item being sold.

Some auction sites allow sellers to set a price at which a buyer can purchase the item without competing with other bidders. A buyer can choose to purchase the item for the price the seller has set, without bidding.

After the Auction: Arranging to Pay and Deliver Merchandise. At the end of a successful auction, the buyer and seller communicate — usually by email — to arrange for payment and delivery.

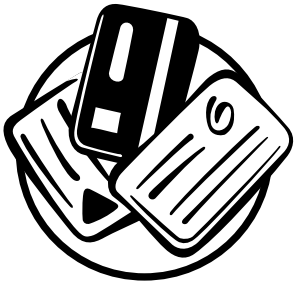
PHISHING

Be aware of "phishing:" emails sent to you asking for your password or other personal information that look like they've been sent by an auction website or payment service. Usually, these emails are fishing for your information and are coming from someone who wants to hack into your account.

If you get an email or pop-up message that asks for personal or financial information, do not reply. And don't click on the link in the message, either. Legitimate companies don't ask for this information via email. If you are concerned about your account, contact the organization mentioned in the email using a telephone number you know to be genuine, or open a new Internet browser session and type in the company's correct Web address yourself. In any case, don't cut and paste the link from the message into your Internet browser; phishers often make links look like they go to one site, but actually send you somewhere else.

Payment Options

Successful bidders can choose among many options to pay for an item they have bought on an Internet auction — credit card, online payment service (which often accepts credit card payments), debit card, personal check, cashier's check, money order, or escrow service. Sometimes, the seller limits the types of payment accepted and posts that information in the auction listing. Many sellers require receipt of a cashier's check or money order before they send an item. Higher volume sellers often accept credit cards directly. To protect both buyers and sellers, some auction sites now prohibit the use of wire transfers as a method of payment.



Credit Cards. Credit cards are a safe option for consumers to use when paying for items bought on an Internet auction: They allow buyers to seek a credit from the credit card issuer (also known as a "charge back") if the product isn't delivered or isn't what they ordered.

Online Payment Services. Online payment services are popular with both

buyers and sellers. They allow buyers to use a credit card or electronic bank transfer to pay sellers. They also may protect buyers from unlawful use of their credit cards or bank accounts because the online payment service holds the account information, not the seller. Many sellers prefer online payment services because the services tend to provide more security than, say, personal checks.

To use an online payment service, the buyer and seller generally set up accounts that allow them to make or accept payments. Buyers provide payment information, like bank account or credit card numbers, and sellers give information about where payments should be deposited. In some cases, sellers do not have to create an account with the online payment service to receive funds. To complete a transaction, the buyer tells the online payment service to direct appropriate funds to the seller. The seller then gets immediate access to the funds. Most online payment services charge the seller to receive the funds, but some payment services charge the buyer.

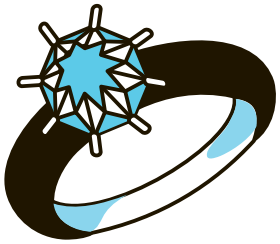
Some online payment services offer protections to buyers if the seller fails to ship the goods or ships goods that are not as described in the auction. Buyers should read the terms under which the

protections apply. Usually, if a buyer uses a credit card to pay for goods or services through an online payment service, charge back rights are available to the buyer who uses the credit card. However, if the service considers the transfer of funds to be a method of sending cash rather than paying for goods, then charge back rights may not apply. If you cannot find out what will happen if you need a refund, or if you don't understand how the payment service works from reading the website, find a different service or use another method of payment.

Debit Card, Personal Check, Cashier's Check, or Money Order. Many smaller sellers accept forms of payment that are cash equivalents. These sellers often wait to receive the payment (and may wait for a personal check to clear) before shipping the item. Buyers should use this type of payment only when they trust the seller. At the same time, sellers should ensure that checks and money orders they receive from buyers are legitimate before shipping the goods; they should be suspicious of checks or money orders for amounts that exceed the price of the merchandise. Unlike credit cards or some online payment services, cash equivalents (and wire transfers) cannot be reversed if something goes wrong.

Wire Transfers. The FTC recommends that buyers not wire money (via a money transmitter or directly to a seller's bank account) unless they know the seller personally or can verify the seller's identity. Buyers should be suspicious of sellers who insist on wire transfers as the only form of payment they will accept. If something goes wrong with the transaction, you most likely will lose your payment and not have any recourse. In fact, to protect both buyers and sellers, some auction sites now prohibit the use of wire transfers as a method of payment.

Online Escrow Services and Bonding Services. For big-ticket items like computers, cars, or jewelry, buyers should consider using an escrow service or purchasing from a bonded or insured seller to protect their funds.

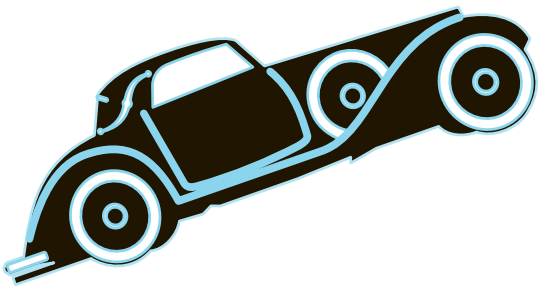


The primary purpose of online escrow services is to protect buyers and sellers from fraud. Escrow services accept and hold payment from a buyer — often a wire transfer, check, money order, or credit card — until he receives and approves the merchandise. Then, the

escrow service forwards the payment to the seller. The buyer pays the fee for an online escrow service — generally a percentage of the cost of the item.

Before using an escrow service, both the buyer and the seller should verify that it is a legitimate, reputable company.

Some sellers may state that they are bonded or otherwise insured against fraud. If a buyer intends to rely on a seller's bonded status or the seller's insurance to protect against fraud, he should investigate the legitimacy of the bonding or insurance company and then make sure that the seller really is a member of — or certified by — that company. If a problem arises with a bonded seller, the buyer usually has to engage in a dispute resolution process with the seller before being able to submit a claim to the bonding or insurance company.



Types of Fraud

Most people who complain to the FTC about Internet auction fraud report problems with sellers who:

- fail to send the merchandise.
- send something of lesser value than advertised.
- fail to deliver in a timely manner.
- fail to disclose all relevant information about a product or terms of the sale.

Some buyers experience other problems, including:

- "bid siphoning," when con artists lure bidders off legitimate auction sites by offering to sell the "same" item at a lower price. They intend to trick consumers into sending money without delivering the item. By going off-site, buyers lose any protections the original site may provide, such as insurance, feedback forms, or guarantees.
- "second chance offers," when con artists offer losing bidders of a closed auction a second chance to purchase the item that they lost in the auction. Second-chance buyers lose any protections the original site may provide once they go off-site.
- "shill bidding," when fraudulent sellers

or their partners, known as "shills," bid on sellers' items to drive up the price.

"bid shielding," when fraudulent buyers submit very high bids to discourage other bidders from competing for the same item, then retract their bids so that people they know can get the item at a lower price.

Escrow Service Complaints. Another type of fraud occurs when sellers or buyers pose as escrow services to improperly obtain money or goods. The so-called seller puts goods up for sale on an Internet auction and insists that prospective buyers use a particular escrow service. Once buyers provide the escrow service with their payment information, the escrow service doesn't hold the payment: It is sent directly to the so-called seller. The buyer never receives the promised goods, can't locate the seller, and, because the escrow service was part of the scheme, can't get any money back.

In some cases, a fraudster poses as a buyer and, after placing the highest bid on an item, insists that the seller use a particular escrow service. The escrow service tricks the seller into sending the merchandise and doesn't send the payment or return the goods to the seller.

Fake Check Scams Target Sellers

Sellers can be victims of fraud when buyers send fake checks or money orders that are detected by the bank only after the seller has shipped the goods. A buyer might offer to use a cashier's check, personal check, or corporate check to pay for the item you're selling. Sometimes, the buyer sends a fake check or money order that exceeds the cost of the item that has been purchased. The so-called buyer (or the buyer's "agent") states that he made a mistake, or comes up with another reason for writing the check for more than the purchase price. In either case, the buyer asks you to wire back the difference after you deposit the check. You deposit the check, learn that it has cleared, and wire the funds back to the "buyers." Later, the bank determines that the check is fraudulent, leaving you liable for the entire amount. The checks were counterfeit, but good enough to fool unsuspecting bank tellers.

Tips for Buyers...

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Despite complaints of fraud, online auctions remain a fun, efficient, and relatively safe way to shop — if you act prudently. Here's how:

Before Bidding

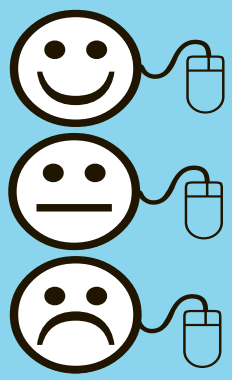
Become familiar with the auction site. Never assume that the rules of one auction site apply to another. If the site offers a step-by-step tutorial on the bidding process, take it. It may save you frustration and disappointment later.

Find out what protections the auction site offers buyers. Some sites provide free insurance or guarantees for items that are not delivered, not authentic, or not what the seller claims. Know exactly what you're bidding on. Read the seller's description of the item or service, and if a photograph is posted, look at it. Read the fine print. Look for words like "refurbished," "close out," "discontinued," or "off-brand" — especially when shopping for computer or electronic equipment — to get a better idea of the condition of the item. Sometimes this information and other important terms are in a contract that may be found by following a hyperlink in the listing to the seller's online store.

Try to determine the relative value of an item before you bid. Be skeptical if the price sounds too low to be realistic. "Brick-and-mortar" stores and price comparison sites may be good for reality checks.

Find out all you can about the seller. Avoid doing business with sellers you can't identify, especially those who try to lure you off the auction site with promises of a better deal. Don't trust emails alone. Some fraudulent sellers have used forged email headers that make follow-up difficult, if not impossible. Get the seller's telephone number as another way to get in touch. Dial the number to confirm that it is correct.

Some auction sites post feedback ratings of sellers based on comments by other buyers. Check them out. Although these comments and ratings may give you some idea of how you'll be treated, comments sometimes are submitted by the seller or "shills" paid by the seller. In other cases, a seller may build up his reputation by selling many low cost items before making fraudulent sales of higher cost items.



Consider whether the item comes with a warranty, and whether follow-up service is available if you need it. Many sellers don't have the expertise or facilities to provide services for the goods they sell. If this is the case with your seller, be sure you're willing to forfeit that protection before placing a bid.

Find out who pays for shipping and delivery. Generally, sellers specify the cost of shipping and give buyers the option for express delivery at an additional cost. If you're uncertain about shipping costs, check with the seller before you bid.

Check on the seller's return policy. Can you return the item for a full refund if you're not satisfied with it? If you return it, are you required to pay shipping costs or a restocking fee? Sometimes the return policy is found in the listing, but other times you may have to access it by following a hyperlink in the listing to the seller's online store.

Email or call the seller if you have any questions. Don't place any bids until you get straight — and satisfactory — answers.

When Bidding

Establish a top price and stick to it. This can help ensure that you get a fair price and protect you from "shill bidding." Don't bid on an item you don't intend to buy. If you're the highest bidder, you're obligated to follow through with the transaction. Some auction sites bar "non-paying" bidders, also known as "deadbeats," from future bidding.

Save all transaction information. Print the seller's identification, the item description, and the time, date, and price of your bid. Print and save every email you send and receive from the auction company or the seller.

Before Paying

Protect your identity. Never provide your Social Security number or driver's license number to a seller. Don't provide your credit card number or bank account information until you check out the seller and the online payment or escrow service, if you're using one, and ensure their legitimacy. Examine the online payment and escrow service's privacy policy and security measures. Never disclose financial or personal information unless you know why it's being collected, how it will be used, and how it will be safeguarded.

Protect your funds. Know what form of payment the seller accepts. If the seller accepts only cashier's checks or money orders, decide whether you're willing to risk sending your payment before you receive the product. Never wire money to a person you don't know or whose identity you can't verify.

If the seller insists on using a particular escrow or online payment service you've never heard of, check it out. Visit its website. Be suspicious of any site that is generally of poor quality with misspelled words or claims that it is affiliated with the government. Call the customer service line. If there isn't one — or if you call and can't reach someone — don't use the service.

Before you agree to use any online payment or escrow service, read the service's terms of agreement. If it's an online payment service, find out whether it offers buyers any recourse if sellers don't keep their end of the bargain, whether it prevents sellers from accessing their funds if buyers are not satisfied with the product, and who is responsible for paying for credit card charge backs or transaction reversal requests. If the online payment service

cannot recover the loss from the seller, it might try to recover its loss from you, using the credit card or bank account information in its file. To limit your exposure, consider reserving a separate credit card, stored-value card, or bank account to use just for your online transactions.

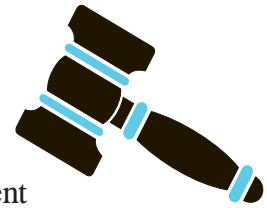
Be suspicious of an online escrow service that cannot process its own transactions and requires you to set up accounts with online payment services. Legitimate escrow services never do this.

Check with the Better Business Bureau, state attorney general, or consumer protection agency — where you live and where the online payment or escrow service is based — to see whether there are any unresolved complaints against the service. A lack of complaints doesn't mean that a service doesn't have any problems. Many scammers change their company names often.

Tips for Sellers...

Know Your Legal Obligations

Under federal law, you're required to advertise your product or service and the terms of the sale honestly and accurately. You can't place "shill" bids on your item to boost the price or offer false testimonials about yourself in the comment section of Internet auction sites.



You're prohibited from auctioning illegal goods; some auction sites have further prohibitions on sales of other items. While many auction sites monitor to ensure that illegal items are not being offered, the responsibility for ensuring that a sale is legal rests with the seller and buyer. Some auction sites post a list of prohibited items.

You are required to ship merchandise within the time frame specified during the auction, or within 30 days, if a time frame is not specified. If you can't meet the shipping commitment, you must give the buyer an opportunity to agree to the new shipping date or cancel the order for a full refund. To learn more about your responsibilities when shipping products, see *A Business Guide to the Federal Trade Commission's Mail or Telephone Order Merchandise Rule*.

Advertising Your Product

When describing your item and its condition, state whether it's new, used, or reconditioned.

Anticipate questions buyers might have and address them in the description of your item or service.

When possible, include a photograph of the item. There's much truth to the saying that "a picture is worth a thousand words."

Specify the minimum bid you're willing to accept.

Specify who will pay for shipping, and whether you'll ship internationally.

State your return policy, including who's responsible for paying shipping costs or restocking fees if the item is returned.

Let prospective bidders know whether you provide follow-up service; if you don't, tell them where they can get it.

Dealing with Bidders

Respond as quickly as possible to bidders' questions about the item you're auctioning or the terms of the sale.

When the auction closes, print all information about the transaction, including the buyer's identification; a description of the item; and the date, time, and price of the bid. Save a copy of every email you send and receive from the auction site or the successful bidder.

Contact the successful buyer as soon after the auction closes as possible; confirm the final cost, including shipping charges, and tell the buyer where to send payment.

Arranging for Payment

If you accept credit card payments from the buyer directly, bill the credit card account only *after* you've shipped the product.

If a buyer insists on using a particular escrow or online payment service that you've never heard of, check it out by visiting its website or calling its customer service line. If there isn't one, or if you call and can't reach someone, don't use the service. If the

service claims to be affiliated with a government agency, that's a sign of a scam.

Before agreeing to use an online payment or escrow service, read the terms of agreement. If it's an online payment service, find out who pays for credit card charge backs or transaction reversal requests if the buyer seeks them.

Examine the service's privacy policy and security measures. Never disclose financial or personal information unless you know why it's being collected, how it will be used, and how it will be safeguarded.

Don't use an online escrow service that does not process its own transactions, but that requires you to set up accounts with online payment services. Legitimate escrow services never do this.

Check with the Better Business Bureau, state attorney general or consumer protection agency — where you live and where the online payment or escrow service is based — to see whether any unresolved complaints are on file against the service. But remember that a lack of complaints doesn't guarantee that the service has no problems.

Look Out for Fraudulent Checks or Money Orders

Sometimes, your bank may not alert you that a fake check or money order has been returned until after you have shipped the merchandise. If you are suspicious about a check because it is written by a third party or for any other reason, call the person who wrote the check to verify that they have authorized it. If you receive a check or money order for an amount that exceeds the successful bid, and the buyer asks that you wire the excess funds back to him or to a third party, do not wire the money. Instead, return the check to the buyer, and do not ship the merchandise.

If you accept payment by check, ask for a check drawn on a local bank, or a bank with a local branch. That way, you can make a personal visit to make sure the check is valid. If that's not possible, call the bank the check was drawn from and ask if it is valid. Get the bank's phone number from directory assistance or an Internet site that you know and trust, not from the person who gave you the check.

For Buyers and Sellers...

Where to Turn for Help

If you have problems during a transaction, try to work them out directly with the seller, buyer, or site operator. If that doesn't work, file a complaint with:

- the attorney general's office in your state.
- your county or state consumer protection agency. Check the blue pages of the phone book under county and state government.
- the Better Business Bureau.
- the Federal Trade Commission. File a complaint online at ftc.gov.

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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