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Internet Auctions: A Guide for Buyers and Sellers

Whether you're looking for a collectible or thinking about selling an antique, an Internet auction may be just the place for you.

Since they began in 1995, Internet auctions have become perhaps the hottest phenomenon on the Web. They offer buyers a "virtual" flea market from which to choose an endless array of merchandise from around the world, and they provide sellers a worldwide storefront from which to market their goods.

But online auctions can be risky business, according to the Federal Trade Commission (FTC), a federal agency that works to prevent fraud, deception and unfair practices in the marketplace. Among the thousands of consumer fraud complaints the FTC receives yearly, those dealing with online auction fraud consistently rank at or 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 focus.

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



Auction Rules

Internet auctions are online bazaars. Some are the scenes of business-to-person activity, where a Web site operator physically controls the merchandise for sale and accepts payment for the goods. But most specialize in person-to-person activity where individual sellers or small businesses auction their items directly to consumers. In these auctions, the seller — not the site — has the merchandise.

The person-to-person sites require sellers to register and obtain a "user account name" (or "screen name") before they can place items for bid. Sellers also must agree to pay a fee every

time they conduct an 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 highest bidder "wins." If no one bids at or above the reserve price, the auction closes without a "winner."

At the end of a successful person-to-person auction, the buyer and seller communicate — usually by email — to arrange for payment and delivery.



Payment Options

Successful bidders usually pay by credit card, debit card, personal check, cashier's check, money order, or cash on delivery. Credit cards may offer buyers the best protection in that 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. Typically, sellers on

business-to-person auction sites accept credit card payments. In contrast, most sellers in person-to-person auctions require a cashier's check or money order before they send an item.

In many cases, an online payment service or an escrow service is used to facilitate payment.



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 who may not be set up to accept credit card or electronic bank transactions. They also may protect buyers from unlawful use of their credit cards or bank accounts

because the online payment service, not the seller, holds the account information. Many sellers prefer online payment services because payment services tend to provide more security than, say, personal checks.

In online payment services, both the buyer and seller set up accounts that allow them to make or accept payments. Buyers provide payment information, such as bank account or credit card numbers, and sellers give information about where payments should be deposited.

To complete a transaction, the buyer tells the online payment service to direct appropriate funds to the seller. The seller then has immediate access to the funds, minus any service fee.

Online Escrow Services

Online escrow services operate differently. Their primary purpose is to protect buyers and sellers from fraud. Escrow services accept and hold payment from the buyer — often a wire transfer via check, money order or credit card — until the buyer receives and approves the merchandise. Only then do they forward the payment to the seller. The buyer pays the fee for an online escrow service — generally a percentage of the cost of the item. Online escrow services usually are used for big-ticket items, like computers, cars or jewelry.



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.

But 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. Their intent is to trick consumers into sending money without proffering the item. By going off-site, buyers lose any protections the original site may provide, such as insurance, feedback forms or guarantees.
- "shill bidding," when fraudulent sellers or their "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 and then retract those bids so that people they know can get the item at a lower price.

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: The payment goes 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 winning 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.



Tips for Buyers...

Despite complaints of fraud, online auctions remain a fun, efficient and relatively safe way to do business — 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, do 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 undelivered, not authentic or not what the seller claimed.
- 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 being auctioned.
- 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. Be aware that some fraudulent sellers may use a forged email header that makes follow-up difficult, if not impossible. Get the seller's telephone number so that you have 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, know that sometimes, comments may be submitted by the seller or "shills" paid by the seller.
- 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?
- Email or call the seller if you have any questions. Don't place any bids until you get straight — and satisfactory — answers.

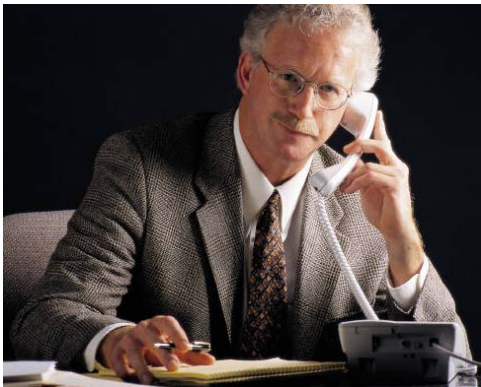
When Bidding

- 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 you bid on the item. Print and save every email you send and receive from the auction company or the seller.

Before Paying

- Know and understand 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.
- Protect your privacy. Never provide your Social Security number, driver's license number, credit card number, or bank account information until you have checked out the seller and the online payment or escrow service, if you're using one, to ensure legitimacy.
- If the seller insists on using a particular escrow or online payment service you've never heard of, check it out. Visit its Web site. A site that is generally of poor quality with, say, misspelled words or claims that the service is affiliated with the government, is suspect. 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 online transactions.
 - 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.
- 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. Keep in mind that a lack of complaints doesn't necessarily mean that a service has no problems.



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. While many auction sites monitor their sites 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 as a guide.

- You are required to ship merchandise within the time frame specified during the auction, or, if a time frame is not specified, within 30 days. If you can't meet the shipping commitment, you must give the buyer an opportunity to cancel the order for a full refund or agree to the new shipping date. 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. The saying that a picture is worth a thousand words is especially relevant in Internet auctions.
- Specify the minimum bid at the lowest fair price you're willing to accept.
- Specify who will pay for shipping, and note whether you'll ship internationally.
- State your return policy, including who's responsible for paying for 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 sales terms.
- 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 "winning" bidder 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 once 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. Visit its Web site. Be suspicious of claims about being affiliated with a government agency. 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 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.
- 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. Be mindful that a lack of complaints doesn't necessarily mean that the service has no problems.



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 FTC.

File a complaint online at www.ftc.gov or call toll-free 1-877-FTC-HELP (1-877-382-4357).

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, 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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