

Online auctions

Thinking of bidding in an online auction, or selling some of your stuff? Internet auctions are a great resource for shoppers and sellers, but you need to watch out for some pitfalls:

Understand how the auction works. 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.

Read each auction site's terms of use before using for the first time. Sites may charge fees, follow different rules, or offer different protections.

Review the sites policies regarding buyer's protections and mediation services in case a problem occurs with your transaction.

Review the sites buyer's fees. Some sites charge the buyer a fee for their purchases.

Check out the seller before you bid. Some auction sites have feedback forums with comments about the sellers based on other people's experiences. Be aware that positive reports may have been "planted" by the seller and negative comments could be from a competitor.

Know who you are dealing with. Avoid doing business with sellers you cannot identify, especially those who try to lure you off the auction site with promises of a better deal. Be careful if the seller is a private individual. Many consumer protection laws do not apply to private sales.

Be especially cautious when dealing with sellers in other countries. If you have a problem, the physical distance, difference in legal systems, and other factors could make resolving it very difficult.

If making a purchase from a foreign seller, make sure to ask about shipping times and other fees. Shipments from a foreign country can take a lot longer

than shipments from the USA. Customs fees can add to the cost of your purchase.

Know exactly what you are bidding on. Print and read a copy of the seller's description of the product closely, especially the fine print. Save copies of all emails you send and receive from the auction site or seller. Ask any questions you may have **before** bidding. If buying an item based on the pictures, ensure the pictures are of the exact item, and not stock photos.

Ask about delivery, returns, warranties and service before you pay. Get a definite delivery time and insist that the shipment is insured. Ask about the return policy. If you are buying electronic goods or appliances, find out if there is a warranty and how to get service. Many auction sites provide this information in the terms of the auction. If this information is missing or you do not agree to a term, contact the seller for clarification.

Find out who pays for shipping and delivery. Generally, sellers specify the cost of shipping the item and give buyers the option of express delivery for an additional fee. If you are unsure of shipping

costs, check with the seller before you bid. Beware of inflated shipping charges. If a shipping charge seems unreasonable, e-mail the seller and ask how they determined the rate; verify the information with your local postal and delivery services.

Ask that the item be shipped insured. Many sellers will automatically ship your item insured. If insurance is not disclosed in the auction, ask about the cost of insurance. Ask about any limitations or requirements that may apply including if there is a deductible.

Try mediation to resolve disputes. Not all problems are due to fraud. Sometimes people simply fail to hold up their side of the bargain in a timely manner or there may be a misunderstanding. Some auction sites provide links to third-party mediation services that help people resolve disputes. There may be a small fee that is usually paid by the party who requests the mediation.

Inform auction sites about suspected fraud. They may have policies to remove sellers from their sites if they do not live up to their obligations.

Do not ever give out your social security or driver's license number – a legitimate seller would not ask.

Be skeptical if the price sounds too low.

Document your transaction. Print out and save the auction listing for the item, your winning

confirmation bid, the feedback report on the seller, and all E-mails you and the buyer exchange. If there is a dispute, this information can be useful and may be required to file a fraud protection insurance claim with the auction site.

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.

Complaints dealing with online auction fraud generally involve late shipments, no shipments, or shipments of products that are not 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 are a buyer or a seller, understanding how Internet auctions work can help you avoid most problems.

How internet auctions work – rules of the marketplace

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.

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.

“Estate” and “Government” Auctions. You may have seen the advertisements: “County Sheriff Seized Property Auction,” “Drug Dealers Seized Assets Up for Auction,” “Spectacular Estate Auctions,” and the list goes on. These ads often include high priced art, antiques, jewelry, household items, and oriental rugs. Research the validity of these “government auctions.” Contact the government agency allegedly being represented to make sure the auction is legitimate.

WisconsinSurplus.com. In Wisconsin certain assets surplus to the present needs of the State of Wisconsin as well as other Wisconsin cities, counties and municipalities are sold on WisconsinSurplus.com. WisconsinSurplus.com is a contracted vendor for the State of Wisconsin, Department of

Administration, to provide the state with their required on-line auction needs. All items listed for bids and/or for sale on this site are items considered surplus and/or excess to the on-going daily needs of the various State of Wisconsin departments and agencies.

For more information contact Wisconsin Surplus at (800) 383-SOLD.

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 have been sent by an auction website or payment service. Usually, these emails are phishing 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 do not click on the link in the message. Legitimate companies do not 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 (from a billing statement, a telephone company book/listing service/operator), or open a new Internet browser session and type in the company’s correct Web address

yourself. In any case, do not 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 is not delivered or is not 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 happens when a refund is needed, or if you do not 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 are not 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 Bureau of Consumer Protection recommends that buyers not wire money (via a money transmitter or directly to a seller's bank account). 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 the buyer – often a wire transfer, check, money order or credit card – until the buyer 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, the buyer 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.

Some tips for determining if an online payment or escrow service is legitimate.

- Read the service's terms of agreement. If it is an online payment service, find out whether it offers buyers any recourse if sellers do not keep their end of the bargain, whether it prevents sellers from accessing their funds if buyers are not satisfied with the product, and who pays for credit card charge backs or transaction reversal requests.
- Examine the service's privacy policy and security measures. Never disclose financial or personal information unless you know why it is being collected, how it will be used, and how it will be safeguarded.
- Check out the online payment or escrow service's Web site. Sites that are of poor quality, say, with misspelled words, or that claim to be affiliated with the government are suspect.
- Call the customer service line. If there is not one – or if you call and cannot reach someone – do not use the service.
- Be suspicious of online escrow services that cannot process their own transactions, but rather require users to set up accounts with online payment services.

Types of fraud

Most people who complain 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 forums, or guarantees.
- “Second chance offers,” when con artists offer losing bidders of a legitimate closed auction a second chance to purchase the item that they lost in the auction at a reduced price. They usually require that victims send payment through money transfer companies, but then do not follow through on delivery. 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 does not hold the payment: It is sent directly to the so-called seller. The buyer never receives the promised goods, cannot locate the seller, and, because the escrow service was part of the scheme, cannot get any money back.
- “Wire transfer schemes” start with fraudulent and misleading ads for the sale of high-value items being posted on well-known online auction sites. When buyers take the bait, they are directed to wire money to the crooks using a money transfer company. Once the money changes hands, the buyer never hears from them again.

Selling on online auction

Just like buying from an online auction, if you decide you want to sell, research the terms of use. Make sure to know all fees that a seller may be charged including charges for your payment methods.

Disclose any terms for shipping and payments you may have including when the item will be shipped and how long the

consumer has to pay for the item.

The biggest complaint sellers have in an online auction is that the buyer does not pay for the item. Disclose in your auction the timeframe the buyer has to pay. Research the auction sites protections for the seller if a buyer does not pay.

Fake check scams (overpayment fraud) target the seller 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, or corporate check to pay for the item you are 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 “buyer.” 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. If you receive overpayment as a seller, do not cash it but instead ask for the exact purchase price.

Online Penny Auctions

In a penny auction, the site owner posts items and you pay

to bid for them. Unlike a traditional auction, where only the winner pays, penny auctions require you to pay before – and as you bid, win or lose.

The price of auction items usually starts at zero, and each bid bumps the price of the item up a penny. Each bid also adds time – from 10 seconds to 2 minutes – to a countdown clock. The goal is to be the high bidder when the clock runs out. But because the clock resets with each bid, the auction process can be unpredictable and take time to complete.

Winning the auction does not mean you have won the auction item: It means you have won the right to buy the item at the final price. For example, your \$50 winning bid for a camera might seem like a bargain, but if you placed 200 bids that cost \$1 each, your cost will actually be \$250 – plus shipping and handling, and possibly a transaction fee.

How to complain

If you have problems during a transaction, try to work them out directly with the seller, buyer or site operator. If that does not work out, for more information or to file a complaint, visit our website or contact the Bureau of Consumer Protection.

**Bureau of Consumer Protection
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Madison WI 53708-8911**

**E-MAIL:
DATCPHotline@wi.gov**

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(Some information taken from the FTC fact sheet "Internet Auctions", 02/08 and "Online Penny Auctions", 08/14)

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