

Transcript -
Making the Most of Online Auctions, Avoiding Online Auction Scams Podcast

This is Carol Kando-Pineda. I'm an attorney at the Federal Trade Commission, the nation's consumer protection agency. One focus of my work is outreach to the military community, giving you tips and tools to avoid scams, watch your wallet and protect yourself in the marketplace.

Today I'm going to talk about Internet auctions. They're a great way to locate hard-to-find items and sometimes get a great deal. So if you're thinking of bidding in an online auction or selling some of your stuff, here's how to make the most of it.

Internet auctions are a great resource for shoppers and sellers, but you need to watch out for some pitfalls and scams. Let's start with some quick tips.

So, think about when you will need to have your stuff. Figure out how soon you need to receive the item you're bidding on, and whether you can tolerate it being delivered late, or even not delivered. Many complaints about Internet auction fraud involve late shipments, no shipments, or shipments of products that aren't the same quality as advertised.

Always look at the Terms of Use. Whether you're a buyer or a seller, read each auction site's Terms of Use before using it for the first time. Sites may charge fees, follow different rules, or offer different protections.

Think about how you're going to pay. Think carefully about it. Learn what recourse you have if something goes wrong. And no matter what, don't send cash, and don't use a money-wiring service.

Certainly don't reply to phishing e-mails—messages that look like they've been sent by an auction Web site or payment service and ask for your password or other personal information. You can always delete those.

Know who you're dealing with. 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.

Confirm the seller's telephone number in case you have questions or problems.

Know exactly what you're bidding on. Sounds like common sense but sometimes in the moment we get caught up in things. Read and print a copy of the seller's description of the product closely, especially the fine print. Save copies of all e-mails you send and receive from the auction site or seller, too.

Now, let's think about the payment options a little bit. Okay, so you're the successful bidder. You've got a lot of options on how to pay: 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. Some sellers require receipt of a cashier's check or money order before they send an item. It's only to protect themselves. That makes sense. 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. It's just too easy to commit fraud using these wire transfers.

Let's talk a little in detail about each of these.

Credit cards are a safe option for consumers to use when paying for items bought on an Internet auction. You get a lot of protections that way. It 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. It's probably the greatest level of protection you'll have.

Now, Online Payment Services. 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, a personal check.

Okay, then you've got the cash equivalents, debit card, personal check, cashier's check, or money order. A lot of smaller sellers will 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 they'll ship the item. Buyers should use this type of payment only when they trust the seller. Think about sending cash, it's the same thing. You really have to trust them. At the same time, sellers should ensure that checks and money orders they receive from buyers are legitimate before you ship the goods. They should be suspicious of checks or money orders for amounts that exceed the price of the merchandise. That's generally a scam trying to get you to wire back more money. Unlike credit cards or some online payment services, these cash equivalents and the wire transfers, they can't be reversed if something goes wrong. Once you've sent that money, it's gone.

Wire Transfers. The FTC recommends that buyers do not wire money. 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.

Then there's online escrow services and bonding services. So, 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 the online escrow service is to protect buyers and sellers from fraud. Escrow services accept and hold payment from a buyer 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. But before using an escrow service, both the buyer and the seller should verify that it is a legitimate, reputable company.

So, we can talk now a little bit about some of the pitfalls and some of the fraud that pops up here. Most people who complain to the FTC about Internet auction fraud report problems that fall along these lines. They have problems with sellers who don't send the merchandise. They send something of lesser value than advertised. They don't deliver in a timely manner or they don't disclose all relevant information about a product or the terms of the sale.

Some buyers experience different kinds of problem, including bid siphoning. That's when con artists lure bidders off legitimate auction sites by offering to sell the same item at a lower price. You know, they think they're going to get a deal. They intend to trick consumers into sending money without delivering the item at all. By going off-site, buyers lose any protections that the original site may provide, such as insurance, or feedback forms, or guarantees. It's really just like going into a dark alley. You know, leaving the store and going into a dark alley. You lose all your protections there.

Second-chance offers are when con artists offer the losing bidder 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. Again, they're just trying to get you off the site so they can get your money.

There's still bidding, which is when fraudulent sellers or their partners, known as shells, bid on sellers' items to drive up the price.

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

Now there are also complaints about escrow services. It's a different kind of fraud. It's when sellers or buyers pose as an escrow service to trick you into sending money, and then they never send the money on to the buyer or seller. They're usually in cahoots with the buyer and the seller and they share the money, but they never send you the goods. So it's really just another form of fraud. They're just trying to trick you about who they're affiliated with.

To learn more about these scams, visit OnGuardOnline.gov. That's the site run by FTC and its partners in the government and technology industries. Learn more about how to stay safe and secure online and avoid Internet fraud. You can get free tips, tools, videos, and games about cyber security.

Do you think you've been ripped off by one of these frauds? Then file a complaint with the Federal Trade Commission at ftc.gov/complaint.

And as always, you can go to Military OneSource for help. This free 24-hour service is available to all active duty, Guard, and Reserve members (regardless of activation status) and their families. Consultants provide information and make referrals on a wide range of issues. Call 1-800-342-9647 or go to www.MilitaryOneSource.com to learn more.