

Millions of people take part in Internet auctions every day, bidding on items from around the world. Buyers and sellers alike benefit from the great opportunities that online auctions provide, but these auctions also give criminals the opportunity to perpetrate fraud. According to the National Consumers League, online auction fraud is the number one fraud committed over the Internet.

HOW ONLINE AUCTIONS WORK

In an online format that resembles a real-life auction, people offer cameras, computers, artwork, jewelry, and dozens of other products, usually in a set time frame for bidding to take place. Prospective buyers examine the descriptions and photos and decide whether (and for how much) to place bids. As in a live auction, the highest bidder wins. Upon winning, the buyer sends payment for the auction item, possibly to an online escrow service that holds payment until the buyer receives the goods.

HOW AUCTION FRAUD OCCURS

Both consumers and merchants can be victims of online auction fraud. Here are some ways that fraud occurs during or after an online auction.

Failure to deliver goods. The seller places an item up for bidding that does not exist or fails to deliver merchandise after the buyer purchases it.

Nonpayment for delivered goods. The seller sends the merchandise to the highest bidder in good faith but fails to receive payment.

Misrepresentation of merchandise. The seller gives false information about the item, or

attempts to deceive the buyer concerning its true value.

Hidden charges. Instead of a flat rate for postage and handling, the seller adds separate charges for postage, handling, and the shipping container, causing the buyer to pay more than anticipated.

Fake bidding. The seller bids on his or her own item, or has someone else bid, in an attempt to drive up the price.

Credit card fraud. The seller uses the buyer's name and credit card number for fraudulent purposes, or the buyer uses a fraudulent credit card when purchasing an item.

Black market goods. The seller offers goods that are stolen and/or copied (e.g., software, music CDs, and videos). Often they arrive with no warranty, instructions, or box.

Bogus escrow services. After the auction, the bogus escrow service receives payment from the buyer but pockets the money and disappears rather than transmitting it to the seller.

PREVENTING ONLINE AUCTION FRAUD

- Understand how an online auction works before you bid on merchandise. What are your obligations as a buyer? What are the seller's obligations? Does the auction site provide insurance that covers buyers up to a certain amount? How would the auction site handle a dispute between buyer and seller?

- Don't judge by initial appearances. It can be hard to validate a seller's claims about the value of an item, and descriptions or photographs on websites can be misleading. Know as much as you can about the item you wish to purchase.
- Investigate the seller as much as possible. Be wary of sellers who provide only an email or post office box address. Check the seller's feedback rating if available on the auction site. Call the seller to see if the phone number is working, or send an email to see if the email address is active. If the seller is a business, check it out with the Better Business Bureau.
- Contact the seller before bidding to find out what type of payment is required, when you can expect delivery, what the return policy is, if the merchandise is covered by warranty, and if shipping and delivery are included in the price.
- Try to pay the seller directly with a credit card, so you can dispute the charges if the merchandise does not arrive or was misrepresented. If possible, avoid paying by check or money order.
- Consider using an escrow service or alternate payment service if purchases on your credit card are not disputable or the goods are not covered by insurance. Make sure the escrow service is licensed and bonded; fraudulent escrow services might pocket your money and disappear.