

RFBT 10 – LAW ON CONTRACTS – CLEAN TTS COPY

Definition, Stages, and Elements

A contract is a meeting of minds between persons where one binds himself with respect to the other to give or render something. Stages are negotiation, perfection, and consummation.

Elements may be essential, natural, or accidental. Essential elements are those without which the contract cannot exist. Natural elements are found in certain contracts, such as warranty. Accidental elements are particular stipulations, such as a payment term.

General contract: consent, object, and cause, or COC. Real contract: COC plus delivery. Formal contract: COC plus the required form.

General Principles and Relativity

Consensuality: contracts are generally perfected by mere meeting of minds. Mutuality: validity or compliance cannot be left to one party's will. Autonomy: parties have freedom to stipulate. Obligatory force: contractual obligations have the force of law. Relativity: contracts bind parties, assigns, and heirs; heirs are liable only to the extent of inherited property.

Exceptions to relativity may arise from law, stipulation, or nature. The notes identify contracts with real rights, stipulation pour autrui, contracts to defraud creditors, and tort interference as situations involving third persons.

Consent, Object, and Cause

Consent is the meeting of offer and acceptance. There must be a definite offer, absolute acceptance, and consent freely given. The offer must be complete. A deviation from its terms is a counter-offer, not absolute acceptance.

Absolute incapacity includes minors and insane persons. Relative incapacity is illustrated in the notes by sale between husband and wife. Consent must not be vitiated.

Under the Cognition Theory, perfection occurs when the offeror knows of the acceptance. General rule during an option period: the offeror can withdraw before acceptance. Exception: the offeree paid option money.

The object is a thing, right, or service and must be within the commerce of men, lawful, transmissible, possible, and determinable.

Cause is the essential or impelling reason for assuming an obligation. It must exist, be lawful, and be real. Absolute simulation means neither party intended to be bound. Relative simulation means the parties make one contract appear but intend another.

Forms and Defective Contracts

General rule: no form is required for validity or perfection. Form may be required for validity, enforceability, or convenience. Examples for validity are donation of real property in a public instrument and donation of personal property above five thousand pesos in writing. Contracts under the Statute of Frauds illustrate enforceability requirements.

Rescissible contracts cause lesion or damage and are valid and enforceable until rescinded. Remedy: rescission; period in the notes: four years.

Voidable contracts have defective consent and remain valid and enforceable until annulled; they may be ratified. Remedy: annulment; period in the notes: four years.

Unenforceable contracts involve failure of formalities, lack of authority, or incapacity of both parties. They are valid but unenforceable until ratified.

Void contracts have an invalid cause, object, or purpose and are void and non-existent.

Reformation corrects the instrument to reflect the true agreement. Rescission cancels due to defects and restores the parties. Resolution terminates due to breach and specifically applies to reciprocal obligations. Ratification validates a previously defective contract through approval of the aggrieved party.

Grounds

Rescissible: guardian or representative contracts causing the ward or absentee lesion of more than one-fourth or twenty-five percent; contracts to defraud creditors; contracts over things in litigation; other contracts deemed rescissible by law; and payments by debtors in a state of insolvency under Article 1382.

Voidable: one party incapacitated; hypnotic spell or drunkenness; or consent vitiated by mistake, violence, intimidation, undue influence, or fraud.

Unenforceable: unauthorized contracts; both parties incapacitated; or noncompliance with the Statute of Frauds.

Void: generally, cause, object, or purpose contrary to law, morals, good customs, public policy, or public order.

Statute of Frauds

Contracts that must be in writing to be enforceable include sale of real property or an interest therein; lease of real property for more than one year; contracts not performable within one year; guaranty and suretyship; marriage settlements; sale of goods over five hundred pesos; and contracts to sell goods in bulk.

A covered contract may become enforceable when it is no longer executory because of partial or complete performance; when the Statute of Frauds defense is waived; or when oral evidence is presented and the other party does not object, which is implied waiver.