

Chapter I: Contracts

Third Party Benefits

Third Parties Benefits

- **Principle: privity of contract:** A *third party* who is not a direct party to a particular Contract normally does not have rights & obligations under that contract.
- **Exception:** Third party benefits of a contract by:
 1. Assignment of rights
 2. Delegation of duties
 3. Parties intention to benefit a Third party.

Assignment of Rights

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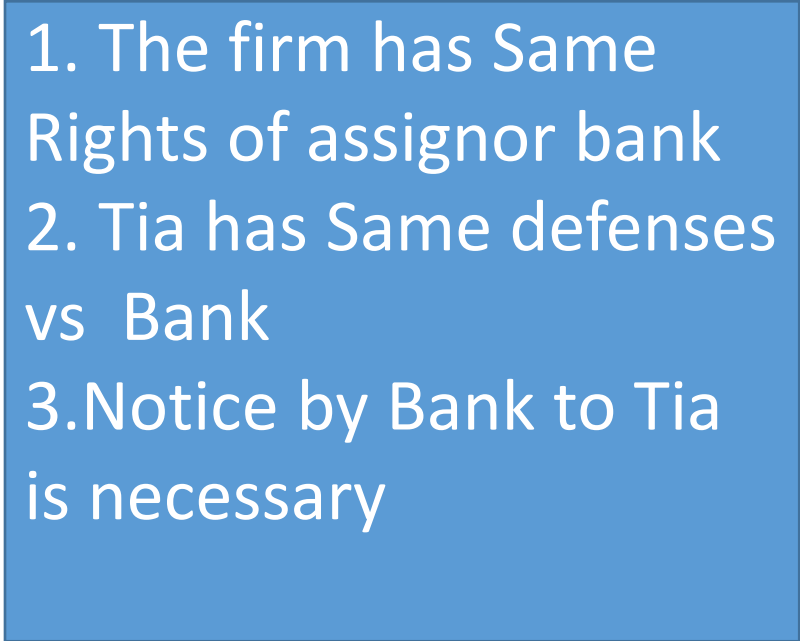
- The transfer of contractual *rights* to a third party is known as an **assignment**.
- **Effects:**
 1. Same Rights are transferred
 2. Same Defenses are transferred
 3. Rights of the assignor in the original contract are terminated.

Case

If Tia obtains a loan from a bank to purchase a car, she may later receive a notice from the bank stating that it has transferred(assigned) its rights to receive payments on the loan to another firm.

When it is time to repay the loan

Tia must make the payments to that other firm or the Bank?



NOTICE OF ASSIGNMENT

- **Before the notice:** Until the obligor (client) has notice of an assignment, the obligor (client) can discharge his or her obligation by performance to the assignor (Bank) ,and performance by the obligor (client) to the assignor (Bank) constitutes a discharge to the assignee (the firm).
- **After the notice:** Once the obligor (client) receives proper notice, however, only performance to the assignee (firm) can discharge the obligor's(client) obligations.

No assignment for certain rights

1. By law : *When a Law prevents Assignment . Ex :*
assignment of *future* workers' compensation benefits

- *When a **Contract Is Personal in Nature** Because personal services are unique to the person rendering them,*
(*Ex: personal services*)
- *If the assignment will change **Significantly the risk or duties** of the obligor(owing performance)*

Ex : insurance policy

2. By contract: A contract can prevent an assignment of any of the contract Rights

CASE

- Horton has a hotel, and to insure it, he takes out a policy with Southeast Insurance. The policy insures against fire, theft, floods, and vandalism. Horton attempts to assign the insurance policy to Kuhn, who also owns a hotel. Advise Horton.

Answer

- The assignment is ineffective because it substantially alters Southeast Insurance's *duty of performance*. An insurance company evaluates the particular risk of a certain party and tailors its policy to fit that risk. If the policy is assigned to a third party, the insurance risk is materially altered because the insurance company may have no information on the third party. Therefore, the assignment will not operate to give Kuhn any rights against Southeast Insurance.

Delegation of Duties

Delegation

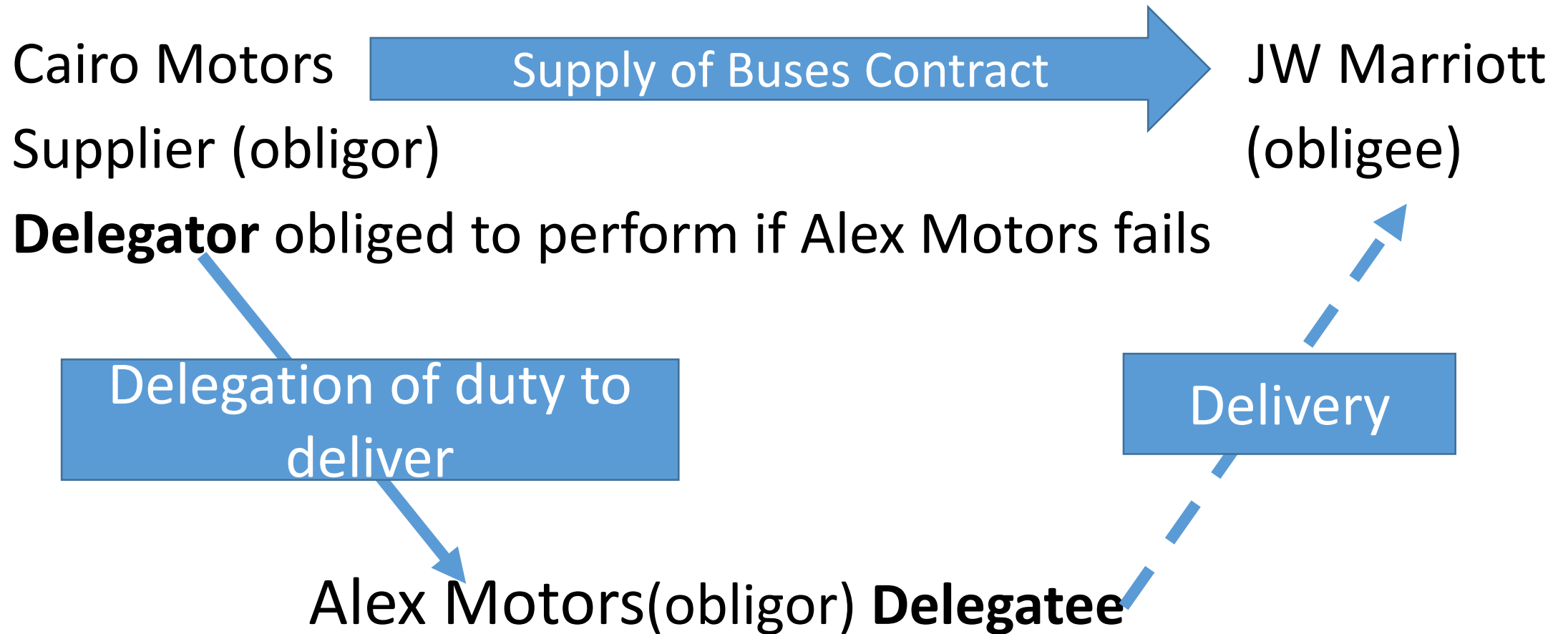
- A party can also transfer duties. Duties are *delegated*.
- **EFFECT OF A DELEGATION:** if the delegatee fails to perform, the original party (delegator) is liable to the obligee (who may also hold the delegatee liable).

CASE

- Cairo Motors, a well known corporation in the Egyptian Market, made a contract with JW Marriott to deliver five new Buses in two months for transport of employees for a sum of 2 M \$. Contacting the buses company in USA to deliver the required buses , it replied that it will be delivered in five Months. To resolve the problem Cairo Motors signed a contract with Alex Motors to deliver the buses in a month to JW Marriott instead of them for 500k\$ as price for the delegation to be paid to Cairo Motors, notifying JW Marriott with this delegation of Duty.

What are the Duties of each Party: Cairo Motors, JW Marriott & Alex Motors ?

Answer



No Delegation

- All duties can be delegated unless:
 1. **Performance** depends on the **obligor's personal skills** or talents.
 2. **Special trust** has been placed in the obligor.
 3. The **contract prohibits** delegation.

Parties intention to benefit a Third party

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- **Effects:**

- **Third party** has the right to bring a **suit directly** vs the **promisor** to enforce contracts made for their benefit.

Ex: Life insurance contract