

**QUESTION 7 THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK III  
OR IN SOFTEST ANSWER SCREEN 7**

Lester built an apartment complex on his property and installed a septic system without a permit and in violation of the health code. He then sold the property to Sally without informing her of the non-compliant septic system. Sally purchased the property as an income-bearing investment, and earned her living from the apartment rentals for several years, during which time the septic system functioned properly. Sally then sold the property to Paula, who also intended to earn income from the rentals. The contract, which required Paula to make installment payments to Sally over several years, stated: "Purchaser has examined this property and agrees to accept it as is." Paula did not know that the septic system had been installed without a permit.

Several days after the closing, a tenant discovered raw sewage seeping through the cracks of the sidewalk surrounding the apartment complex. Subsequent testing revealed that the septic system was failing. The health department promptly condemned the property and obtained a permanent injunction forbidding anyone from living in the apartments until the septic system was repaired to meet code requirements. Due to the defects of the system and the size of the property, however, the system could not be brought into compliance with the code, rendering the property worthless.

Paula stopped making the contractually required payments to Sally. Paula did not know that Sally had been using those payments to pay off a loan for a recently purchased boat. Sally had no other source of income and defaulted on the boat loan, incurring a large penalty.

Sally brought a breach of contract action against Paula, seeking to recover the missed payments under the sales contract and the penalty for the boat loan default. Paula counterclaimed, seeking rescission of the contract. Neither party disputes that the contract is valid and that if it is not rescinded, Paula breached it.

**Applying Michigan law, evaluate the claims of Paula and Sally.**

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