Collection of a debtor's $2,000 debt to a creditor was barred by the applicable statute of limitations. The debtor sold and delivered his car to a buyer under a written agreement, signed by the buyer, in which the buyer promised to pay the $2,000 purchase price to the creditor "in satisfaction of [the debtor's] debt to [the creditor]."

Can the creditor recover the $2,000 from the buyer?

A. No, because payment of the $2,000 to the creditor would undermine the statutory public policy against enforcement of stale claims.

B. No, because the creditor's rights as an intended beneficiary are subject to any defenses available to the contracting parties between themselves.

C. Yes, because the buyer's promise to pay $2,000 to the creditor is enforceable by the creditor regardless of whether the debtor was legally obligated to pay the creditor anything.

D. Yes, because the buyer's promise to pay $2,000 to the creditor revived the uncollectible debt.

Explanation:

Third-party beneficiaries

(ie, nonparties who benefit from contract)

Type	**Definition**	**Right to enforce**
Intended	• Receive *direct* benefit from contract because contracting parties intended to benefit them • Eg, A promises to paint B's house if B promises to pay $500 to C	Yes
Incidental	• Receive *indirect* benefit from contract even though there was no contractual intent to benefit them • Eg, A promises to buy B a car manufactured by C	No

A **third-party beneficiary** is a nonparty to a contract who receives some advantage or benefit from that contract. There are two types of third-party beneficiaries:

- **Intended** – who receive a ***direct* benefit** from the contract because the **contracting parties so intended** (eg, the contract provides that payment will go directly to a third party)

- **Incidental** – who receive some ***indirect* benefit** from the contract even though there was **no contractual intent** to benefit them (ie, all third-party beneficiaries who are not intended beneficiaries)

Only **intended beneficiaries**—not incidental beneficiaries—**have contractual rights** and **may sue to enforce** them.

Here, the debtor and the buyer agreed that the buyer would pay the $2,000 purchase price directly to the creditor in satisfaction of the debtor's debt to the creditor. This made the creditor an *intended* third-party beneficiary of the debtor-buyer agreement. Therefore, the creditor can enforce the buyer's promise to pay the $2,000. This is true regardless of whether the *debtor* was legally obligated to pay the creditor anything (given that the applicable statute of limitations had run) **(Choice D)**.

(Choice A) There is no statutory public policy against enforcement of stale claims. And here, the buyer's promise to pay the creditor the $2,000 is enforceable even if the creditor was time-barred from collecting the debt from the debtor.

(Choice B) The promisor (eg, the buyer) can raise any defense against the third-party beneficiary (eg, the creditor) that the promisor had against the original promisee (eg, the debtor). But there is no indication that the buyer has a defense against the debtor that could be raised against the creditor in this case.

(Choice D) The buyer's promise to pay $2,000 to the creditor did *not* revive the uncollectible debt—ie, a suit by the creditor to collect the $2,000 from the *debtor* would still be barred by the applicable statute of limitations.

Educational objective:

Third-party beneficiaries are nonparties who receive some advantage or benefit from a contract. But only *intended* beneficiaries have contractual rights and may sue to enforce them.

References

- 17A Am. Jur. 2d Contracts § 426 (2020) (intended versus incidental beneficiaries).
- Restatement (Second) of Contracts § 302 (Am. Law Inst. 1981) (intended and incidental beneficiaries).