

A woman obtained a bid of \$10,000 to tear down her old building and another bid of \$90,000 to replace it with a new structure in which she planned to operate a sporting goods store. Having only limited cash available, the woman asked a local businessman for a \$100,000 loan. After reviewing the plans for the project, the businessman in a signed writing promised to lend the woman \$100,000 secured by a mortgage on the property and repayable over 10 years in equal monthly installments at 10% annual interest. The woman promptly accepted the demolition bid and the old building was removed, but the businessman thereafter refused to make the loan. Despite diligent efforts, the woman was unable to obtain a loan from any other source.

Does the woman have a cause of action against the businessman?

- A. No, because the woman's inability to obtain a loan from any other source demonstrated that the project lacked the financial soundness that was a constructive condition to the businessman's performance.
- B. No, because there was no bargained-for exchange of consideration for the businessman's promise to make the loan.
- C. Yes, because by having the building demolished, she accepted the businessman's offer to make the loan.
- D. Yes, because her reliance on the businessman's promise was substantial, reasonable, and foreseeable.

Explanation:

The equitable doctrine of **promissory estoppel** allows a party to recover damages stemming from another's failure to perform a promise when there is **no valid contract** (as seen here). Recovery under promissory estoppel is warranted if:

the promisor **reasonably expected** to induce reliance on the promise

the enforcing party **reasonably relied** on the promise

reliance on the promise caused the enforcing party to suffer **substantial detriment** and injustice can only be avoided by enforcing the promise.

Here, the woman had not accepted the businessman's loan offer, so there was no valid contract between the two. However, the woman substantially, reasonably, and foreseeably relied on the businessman's promise of a loan by accepting the demolition bid. As a result, she can assert a cause of action for promissory estoppel against the businessman (and will likely prevail).

(Choice A) A constructive condition is one that is not expressly stated in a contract but is implied by law. Financial soundness of a project is *not* a constructive condition to performance of a party's promise to make a loan.

(Choice B) There was no bargained-for exchange of **consideration** for the businessman's promise, which would be required to recover under a breach-of-contract theory. But consideration is not needed to recover under a claim of promissory estoppel.

(Choice C) There are no facts indicating that the businessman authorized the woman to accept his offer to make a loan by demolishing the building. Therefore, this is not a basis for a cause of action against the businessman.

Educational objective:

Promissory estoppel can be used to enforce a promise when no valid contract has been formed if (1) the promisor reasonably expected to induce reliance on the promise, (2) the promise did induce such reliance, (3) that reliance caused the other party substantial detriment, and (4) injustice can only be avoided by enforcing the promise.

References

Restatement (Second) of Contracts § 90 (Am. Law Inst. 1981) (promissory estoppel).

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Promissory estoppel claim

