

LITIGATION ALERT
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Courts may modify contractual stipulations based on equitable principles of good faith to prevent an injustice

The Puerto Rico Supreme Court recently held that when contract changes are due to unforeseeable circumstances, courts may modify the contract to prevent an injustice. Banco Popular de Puerto Rico v. Sucn. Talavera, 2008 T.S.P.R. 132.

The 1968 lease at issue had a term of twenty-five years at the end of which the lessee could exercise a purchase option by paying a stipulated price. In 1983, the lessor, a widow and housewife who lived outside of Puerto Rico, sent a letter to the bank informing that her husband had died, that she needed advice regarding the lease, and that she expected the institution to act in good faith. The bank never answered her letter. In 1985, she died, but the bank kept paying the lease until May 27, 1993 when the contract expired. Shortly before, the Bank notified the estate of its intention to exercise the purchase option but the estate declined to execute the deeds. The Bank sued on May 19, 1994 seeking strict performance of the lease agreement, specifically, the purchase option clause. Among other things, the estate requested that the court modify the contract because it was unforeseeable that a layman could anticipate the increase in the value of a property over a period of twenty-five years. The Court of First Instance agreed with the estate but the Court of Appeals did not and held in favor of the bank.

The Supreme Court reversed the Court of Appeals decision and found for the estate. It held that pursuant to general principles of equity, a discretionary doctrine based on the principles of fair play and the parties' conduct, it is presumed that the parties would not have agreed upon such terms would they have known that the circumstances would change so drastically. In essence, the value of the land had grown quite substantially and many times over the purchase price stipulated in 1968. The Court determined that in such situations requiring strict performance would cause an injustice which runs contrary to general principles of good faith. Accordingly, courts may intervene and modify the contractual stipulations based on equitable principles.

If you have any questions or comments, or wish additional information regarding this matter, please contact Francisco G. Bruno, Director of our Litigation Practice Group at (787) 250-5608 or fgb@mcvpr.com. The contact information of our Litigation Practice Group attorneys is available at our website: www.mcvpr.com.

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