

Understanding Contracts
(and how you may lose your legal rights)

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People enter into contracts for many reasons. It may be for the sale and purchase of goods or the resolution of a dispute. Some people draft their own contracts or use form contracts which are available from stores or the internet. Others sign contracts without understanding all of their legal rights. Legal problems may develop in either situation.

Although form contracts may be inexpensive, their use may come at a price. These standardized forms do not always comply with Pennsylvania law. For example, Pennsylvania adopted the Plain Language Consumer Contract law. This law applies to residential leases and other consumer contracts.¹ It has numerous requirements such as how many words may be in a sentence or paragraph, and it prohibits ‘boilerplate’ language and other legal terms. A violation of the law results in damages and the payment of the other person’s attorney fees.

Another potential issue arises when people sign contracts without understanding their legal rights. Consequently, a person may unknowingly give up certain rights. A person dealing with a divorce may be entitled to a 60% distribution of the marital estate but may sign a property settlement agreement agreeing to receive only 50%.

Besides property rights, a person may be giving up legal rights. One example is under the Landlord Tenant Act when a tenant gives up the right to notice. Another area of law where waiver of legal rights occurs is when a person is offered a severance package and they give up the right to file suit based upon certain classes of discrimination.

Another common situation occurs when each party believes the contract language conforms to his or her understanding of the other party’s representations and then a dispute arises. Naturally, each party will claim the contract supports his or her position. Through the years, the courts have created rules to interpret contracts when parties have a dispute. The purpose of contract interpretation is to give effect to the intention of the parties.

The first issue a court reviews is to decide if there is an ambiguity in the contract. An ambiguity exists in a contract when the language is capable of being understood in more than one way. If there is no ambiguity, the contract will be enforced as written. This means the court will only review the contract as written and it will not consider, for example, a party’s statements or comments made during negotiations. Thus, it is important to clearly state your intentions.

¹ Marriage agreements, insurance contracts, mortgages, and some other consumer contracts are exempt.

If you drafted the contract and the language is ambiguous, the courts construe the language against you because you were the drafter of the contract. This could have negative implications for you.

Many contracts contain an integration clause. This clause states that you may not rely on any representation made by the other party unless it was written in the contract. In other words, if you want to rely on the verbal representation of the other party, you need to include it in the contract before it is signed or you will not be able to hold the other party to his representation.

Assume you signed a contract and after it is signed, you realize that it did not include everything that you had wanted to include. The courts will not add these terms or clauses to the contract. A court will not even include words inadvertently omitted unless it appears with certainty from the context of the language that the word was inadvertently omitted.

Contract rights are governed by the law of the place where the contract was made but what if you used a form contract from a store and it said it would be construed according to the laws of Maryland and you didn't notice this language or give it much thought? What if you lived in Pennsylvania and the other person lived in Maryland? What if neither of you lived in Maryland but there were some contacts with that state or you signed it in Maryland? What state's law would govern the contract?

Generally, states will give effect to a contract provision requiring another state's law to apply unless the other state has no relation to the contract. Consequently, in the above hypothetical questions, a Pennsylvania court would probably apply Maryland law. The application of another state's law may not be favorable to you.

Contracts to buy a home, lease an apartment or commercial property, or to divide marital assets are governed by contract principles developed by the courts. Improperly drafted contracts may not be interpreted in the way a person thinks they should be interpreted and the result could be a loss of legal or property rights. The advice and counsel offered by an attorney may avoid these pitfalls and ensure your intentions are satisfied.