A Million-dollar Lesson

Henry Hui
Training Consultant

Untrustworthy Jack

"Oh Jane, trust me. I have stopped dating other girls and I will marry you in future, for sure! Will you lend me a million dollars so I can start my business?" Jack asked.

Jane was moved. So, she signed an agreement with Jack and promised to lend him a million dollars interest-free. Under their agreement, Jack would repay the money by installments, payable to Jane at the end of each month.

After a few months, Jack again asked, "My dear Jane, you know running a business these days is extremely difficult especially, under the current poor economic environment. Could my outstanding debt be waived? If my business kicks off faster, we could get married sooner. By that time, all my belongings will definitely be yours!"

Jane was again moved and promised that Jack did not have to repay his outstanding debt.

But then Jane found that Jack had been dating Jill all the time. Jane was totally disappointed with Jack and demanded that he return all the outstanding debt immediately. Jack refused. Jane was very angry and she sought help from her friend, Susan, who was a legal expert.

"I've warned you many times never to trust Jack. He's totally untrustworthy!" Susan muttered. "Anyway, let's see how we can get the money back."

The doctrine of promissory estoppel

"Under contract law, the three basic elements for a valid contract are offer, acceptance and consideration. Consideration is the price paid by one of the contracting parties in exchange for the promise made by the other party. Without consideration, a contract is invalid. Your promise to waive Jack's outstanding debt was not supported by consideration, as Jack had never given you anything in exchange for your promise. Therefore, Jack must carry out his original contractual duty and repay his debt to you."

Susan continued, "But there are exceptions to the rule of consideration. One of the most important exceptions is the doctrine of promissory estoppel, which renders consideration unnecessary if reliance is established."

"Under this doctrine, if a party in an existing contract makes a promise to lessen the other party's contractual burden, and if he knows that the other party will rely on this promise, he cannot relinquish his promise if the other party has demonstrated reliance on his part. This doctrine will apply even though the other party has not provided any consideration for the promise."

Susan elaborated further. "In the case of *Central London Property Trust Ltd v High Trees House Ltd* (1947), High Trees House Ltd leased and sub-rented a block of flats from a landlord. During World War II, the occupancy rates fell heavily. To prevent High Trees House Ltd from abandoning the flats, the landlord promised to reduce the rent by half. After the war, the occupancy rates returned to normal and the landlord sued High Trees House Ltd to recover the price of the full rent, arguing that its promise to reduce the rent by half was not supported by consideration. The court applied the doctrine of promissory estoppel and held that the landlord was not allowed to recover the full rent during the wartime period."

Susan pondered, "Jack could apply the promissory estoppel doctrine to counter your claim. So, did you know whether he has acted in reliance on your promise?"

Jane shrugged. "Of course not: I don't even know what business he's engaged in."

Susan sighed, "To love a person doesn't mean you have to be 'blind'. You may lose a million dollars in the end. What an expensive lesson! Anyway, it is for the judge to decide whether promissory estoppel is permitted, and the good news is that it won't be easy for Jack to establish reliance on it. In the *High Trees* case, the judge only allowed the tenant to establish reliance during the wartime period and the landlord was allowed to charge the original rent when the war ended – provided that the landlord had given reasonable notice to the tenant."

Jane replied, "Thanks! Anyway, I won't believe in Jack anymore! All I want is to have my money back!"