
Business & Financial Services Committee

HB 1535

Brief Description: Providing requirements for business payment contracts.

Sponsors: Representatives Condotta, Kirby and Bailey.

Brief Summary of Bill

- Requires business payment contracts to include a separate signature line preceded by a phrase notifying the signer that he or she will be personally liable for payment under the agreement.
- Makes business payment contracts that do not meet these requirements voidable by the authorized business representative who is responsible for payment.

Hearing Date: 2/1/11

Staff: Parker Howell (786-5793) and Alison Hellberg (786-7152).

Background:

Contract Law. Contracts are agreements between two or more parties to exchange acts or promises to act. Contracting parties often formalize the terms of their agreements in a written document to aid resolution of any disputes that might arise over performance of the contract. If a person who has signed a written contract fails to perform the promised act, the other party may file a lawsuit asking a court to force the signer to perform or to pay money damages to restore that party to the position he or she would have been in had the contract been carried out.

Contracts of Adhesion. Some businesses use standardized written contracts to carry out agreements in which one party agrees to pay for a good or service, allowing for little or no negotiation between the parties. While state courts may disfavor such "contracts of adhesion," these contracts are often enforceable.

To shield themselves from legal liability arising from business contracts, including those for the purchase of goods and services, businesses often form Limited Liability Companies (LLCs) or

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

corporations. When an LLC fails to pay a debt, for example, creditors typically may not seek payment from individual members of the LLC. But based on the language of a specific contract, a court may nonetheless find the signer personally liable for damages from a breach of the agreement.

Voidable Contracts. When a contract is legally "voidable," one or more of the parties to the agreement may choose to no longer be bound by the contract. In contrast, a "void" contract is legally nullified and unenforceable by either party.

Summary of Bill:

Business payment contracts must include a specified notice regarding a signer's personal liability for sums due.

A "business payment contract" is defined as a written agreement between two or more parties in which at least one party is an authorized business representative who promises to personally pay money to the other party or parties to the contract. An "authorized business representative" is defined as a natural person authorized to conduct business on behalf of a business entity, including an LLC, corporation, or nonprofit corporation that is registered in Washington or another state.

Every business payment contract executed on or after January 1, 2012, must include a separate signature line, directly following and on the same page as any other signature line or lines that the authorized business representative must sign. The signature line must be preceded by a notification in clearly visible, 14-point bold type stating, "By signing this contract you, the undersigned, agree to become PERSONALLY LIABLE for any sums due pursuant to this document, regardless of whether you are signing on behalf of a limited liability company, corporation, or nonprofit corporation."

Business payment contracts that lack these requirements are legally voidable by the authorized business representative. Compliance with these requirements is the duty of any party to the business payment contract other than an authorized business representative.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.