

# Automatic renewal clauses: the case between letisha and sudson washer and dryer



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This paper examines a contract between Letisha and Sudson Washer and Dryer that contains an automatic renewal clause. The potential defenses for Letisha if Sudson sues her for breach of contract are presented. The defenses for Sudson that support the automatic renewal clause are also discussed. The ethical issues of using an automatic renewal clause and the actions of the Sudson Washer and Dryer representative when signing the contract are also examined. Section 2A of the Uniform Commercial Code and how it applies to this case is presented. There are also government and private entities that Letisha can complain to about the business practices of Sudson. Finally, the paper concludes with the potential outcome of the case if Sudson sues Letisha for breach of contract.

**Automatic Renewal Clauses: The Case between Letisha and Sudson Washer and Dryer**  
Letisha signed a lease with a Sudson Washer and Dryer Representative that allowed her to lease a washer and dryer from the company for five years. At the end of the lease agreement, Letisha called to cancel, and found out that her lease agreement had been extended for three five year terms. Letisha was unaware that the contract had an automatic renewal clause.

The Uniform Commercial Code section 2A defines a lease agreement, and it also explains how lessees and lessors are protected. Using Section 2A and state laws, there may be defenses for Letisha if she decides to breach the contract and Sudson sues her. There may also be government agencies Letisha can bring her grievances to about Sudson's use of automatic renewal clauses. There are also defenses for Sudson to support the enforcement of the automatic clause, even if the use of an automatic renewal clause may be

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unethical. This case is an example of the importance of reading a contract before signing it.

### Defenses for Letisha

Depending on the state where Letisha lives, there could be a multitude of defenses available to her regarding the automatic renewal. In some states, the lessor is required to send a reminder to the lessee of the automatic renewal (Davidson et al., 2009). In New York, for example, the lessor is required to send written reminders of the automatic renewal at least 15 days before the contract renews (Dutton, 2011). Since Letisha received no prior notification besides the information in the contract; she may be able to use that fact in her defense.

In Illinois, the automatic renewal policy must be conspicuous (Dutton, 2011). There is no uniform requirement for conspicuousness, but the Uniform Commercial Code states that capital letters and bold face print should be used. It is apparent in Letisha's case, that the automatic renewal clause with Sudson was not conspicuous, which may be grounds for a defense.

In Wisconsin, laws regarding the automatic renewal clause were passed saying that the lessee must be informed about the clause before the contract is signed (Dutton, 2011). The salesman did not inform Letisha of the clause, and while it is her responsibility to read the contract, she may have grounds for a defense in some states. Some states would also allow a defense on the grounds that the automatic renewal length is too extensive. Most standard form contracts are held if the automatic renewal is for five years or less (Kirschenbaum, 2013). It would be up to Letisha to either

research the legislation in her state regarding automatic renewal contracts, or to hire an attorney to do so, in order to find if she has grounds for a defense against Sudson.

### Defenses for Sudson Washer and Dryer

Though there are provisions in many states regarding automatic renewal clauses, if Sudson followed the stipulations in their state, they would have a legal argument supporting the enforcement of the clause. In the case of *Tidwell v. Pritchett-Moore, Inc. & Tim Rutledge*, the Alabama Supreme Court found that automatic renewal clauses are enforceable if the provision is clear in the contract (Tidwell 2008). It is not the fault of the company, if the lessee signed the contract without reading it fully and failed to give notice of cancellation before the deadline.

If the clause is stated clearly, then it is likely that it will be enforced by the courts. For example, in the case of *Winthrop Resources Corporation v. Spearhead System Consultants*, the court found that because intentions to terminate the contract were not made clear before the time allotted in the contract, the renewal of the contract was enforceable (Huddleson, Graynor, Flick, & Whelan, 2003).

### Ethical Issues

While Sudson's automatic renewal clause may be upheld, there are ethical issues of the company using such a practice. First, many courts have had the opinion that parties should be notified when the lease is up for renewal (Leitess, Ihne, & Goldberg, 2005). It is unlikely that the client would remember about the clause five years later, and the company should be

willing to make a courtesy call in order to keep customers happy. Also, all parts of the contract should have been discussed before signing.

Not informing the client of the automatic renewal policy does not reflect well on Sudson Washer and Dryer Service. The National Association of Equipment Leasing Brokers states in their code of ethics that leasing companies should remain honest and professional in all business transactions ("NAELB," 2013). In this case, not discussing all parts of the contract before allowing the client to sign is neither honest nor professional. U. C. C Section 2A

The Uniform Commercial Code Article 2A governs the leases of goods, and it provides basic contract rules regarding leases. The U. C. C. defines a lease as transfer of goods by a lessor to a lessee for a set amount of time in exchange for payment ("U. C. C.," 2002). Using this definition, the U. C. C. Article 2A can be applied to the agreement between Letisha and Sudson Washer and Dryer Service. Sudson leased the equipment to Letisha in return for monthly payments.

The company is responsible for the upkeep and maintenance of the washer and dryer because they hold the title to the machine. Letisha is required to make payments to Sudson in order to fulfill her part of the lease agreement. Article 2A not only lists the necessities to make a lease agreement legal, but it also lists the rights of both lessee and lessor regarding the lease agreement.

#### Complaints to Government Entities

One entity that Letisha may complain to is the Better Business Bureau. The BBB will look into any complaint that does not involve the workplace,

discrimination, healthservices, legal services, or cases in litigation (“ What complaints,” 2013). A complaint through the BBB will be sent to the business for resolution. Though the business may choose to stand behind their agreement, a complaint will be lodged against the company. Another option for Letisha is the Bureau of Consumer Protection under the Federal Trade Commission.

The purpose of the Bureau of Consumer Protection is to protect consumers from unfair or deceptive business practices (Rich, 2013). If the automatic renewal clause is found to be unfair or deceptive, then the company may be sued by the Bureau of Consumer Protection. Letisha can complain to these entities about Sudson’s automatic renewal clause, but it is the agency’s discretion whether the clause is unfair or not.

#### Outcome of Legal Proceedings

If Sudson sues Letisha for breach of contract, it is likely that Sudson will win the case. The U. C. C. Section 2A-301 states a lease contract is enforceable according to the terms agreed to by both parties (“ U. C. C.,” 2002). Since Letisha and the Sudson representative signed the contract, both parties agreed to the terms within the contract. It is unlikely that the court will favor Letisha because the automatic renewal clause was not pointed out to her. It is the lessee’s responsibility to read the contract and understand all parts. The agreement clearly stated the time limit on cancelling the lease, and Letisha failed to meet those requirements.

#### Conclusion

In order to avoid issues like Letisha's with Sudson, it would be advisable for parties to go through the contract together. Lessees may even want to hire an attorney to explain any part of a contract that is not easily understood. By taking the time to read the entire contract before signing, lessees are protecting their interests. Automatic renewal clauses are losing their popularity, but they are still used, especially in leases between businesses. Businesses may want to consider other avenues to keep customers, but if they are going to use automatic renewal clauses, it will keep customers happy if they are informed of such a clause before it is too late to cancel the lease agreement.