THE LEGAL ROLE OF IMMORALITY IN FAMILY PROPERTY CONTRACTS

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Abstract: A family property contract is an atypical contract, regulated by family law and contractual legal rules simultaneously. Contractual freedom is an important part of family property relations. Although private autonomy between family members cannot tolerate intervention, there are several situations that make it necessary. The limits of contractual freedom have a complex system in the Civil Code. The reason for that is the protection of legal rules has two directions. On the one hand, it helps family members in a vulnerable situation, and, on the other hand, it protects third parties who have a legal relationship with the family members. Another important reason for this complexity is the connectable nature of legal rules. Property contracts are primarily regulated under family law, secondly under contract law. As a result, we can find limits raised from family law orders, parallel to those, having contractual nature but at the same time adjusting effect to the family relationships.

However, the invalidity of these contracts, as an important issue is already a neuralgic point. In cases of family property contracts, the long-term nature and emotional relation among family members make it difficult to use the traditional legal consequences of contract law. Furthermore, it is also complicated to find a perfect solution for legal arguments between parties. This is especially true in the internal/intimate legal relations of the parties, where the basis of accounts is called into question – because the property of parties is always changing –, it is difficult to reconstruct the circumstances at the time of concluding the contract not mentioning occurring temporary changes of property value.

Immorality, as a ground for invalidity, has a unique interpretation and adjudication in family property contract because the emotional reason of parties complicates the situation, and it is difficult to track back the root cause or the original motivation, which led family members to accept disadvantageous terms.

In my study, I will introduce the Hungarian legal practice and the interpretation of immoral family property contracts.

Keywords: family property contract, contract, immorality, invalidity, family law

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1. **INTRODUCTION**

Legal relations between family members had and have always had a dedicated place in the system of civil law. Family law, as an independent area of the law, was regulated by an independent act for a long time, separated from the other rules of civil law, but it was never controversial that family law is part of civil law. (Weiss, 2000, p. 4)

The Family Act tried to keep this distance from the other rules of civil law, but sometimes it was not sustainable and generated legal contradiction or absence in practice. It was indispensable in many cases, that the courts used CC 1959 simultaneously and combined the rules of these two acts for efficient dispute resolution.

During the codification of Act V of 2013, the Civil Code of Hungary (hereinafter CC 2013), realized this symbiosis, because the legislator integrated the rules of family law into the CC 2013. However, two important factors substantiate the righteousness of the divergent interpretation:

- Has a dominant part of the moral requirements after the legal regulations in the case of family relationships as in any other legal relationship.
- There are a lot of family relations which is not required legal intervention, so the private autonomy of the family members is extremely wide. (Barzó, 2017a, p. 21)

After all, we can declare, that the rule of CC 2013 in book four behaves like *lex specialis* and the other rules of CC 2013 (for example the rules of contract law or right in rem) complement as *lex generalis*.

The interaction of the rules is more significant for example in the contractual relationship of family members, especially in property questions. I think so, it is true for these contracts, that they are different from the contract of business life. The causes of the differential are the next:

- The motivation and the causes of binding family property contracts are based on emotional factors\(^1\) but in the case of the contracts of business life, it is always significant the individual interest mostly the economic interests of the parties.

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1. *Emília Weiss* marks only the fact that family relations can be regarded as private legal relations even if the previous legislation has not quite reflected this. She refers here not only to the separation of the Act IV of 1952 about marriage, family, and guardianship (hereinafter: Family Act) and the Act IV of 1959 about the Civil Code of Hungary (hereinafter CC 1959), but also to the fact that until 1959 the traditional legal relations of civil law were based on unwritten law, while at the same time a written law regulated the right to marry and guardianship. – (Weiss, 2000, p. 4)

2. Just think of the fact that the protection of property and the preservation of property independence are often in the background of a separation of assets, whereas the purpose of common property contracts is often to express unity and, above all, belonging in the sense of property law. In addition, the parties can settle their financial relations with these contracts according to their own needs, especially in contracts that share common property, in which the emotional decision rather than the rational cause is realized.
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- The legal effect in the family property contracts, without exception, try to order the property relationships between the family members. As another effect, it can help this solution but in the contract of business life the subject and the types of the contracts determine the legal consequences.

- Consequently, the subject of family property contracts is exclusively the settlement of the parties’ property relations, but in other contracts, the type of service determines the subject of the contract.³ (Leszkoven, 2015, pp. 41–42)

- In family property contracts, the protection of third parties is enhanced, which can be traced back to both the special creditor protection and liability rules. On the other hand, in business contracts, the internal relationship has special relevance to the contractual guarantees, which most encourage the parties to accomplish the contract.⁴

However, it would be wrong to conclude from all this, that family property contracts are sharply separate from other types of contracts. These delimitation criteria are intended only to illustrate that family property contracts have also specific characteristics that need to be considered. The legislator follows this solution, because he places the rules of property contracts largely in the Book of Family Law, emphasizing the special elements that deserve to be more attention. However, these contracts are also considered to be contracts, so in the absence of special rules, they are governed by the general rules of contract law. (Körös, 2013, p. 119) I mentioned in the previous thoughts property contracts between family members as family property contracts. (Family property contracts are part of family property law, see in detail: Kriston 2020a; Kriston, 2020b) The term is a summing-up definition, which is a novelty in the legal literature of family law and is intended to express that in the changing system of family relations, property rights issues affecting family members are necessarily changing. In the past, property disputes focused almost exclusively on the issue of matrimonial property law, and this issue has also played a significant role in legislation and jurisprudence. Today, however, the system of family legal relations presents a more complex picture, (Kriston, 2018, pp. 396–407) and the renewed and expanded family law regulation of the Civil Code necessarily requires the application of progressive approaches as well. Accordingly, by family property contract, we mean contracts that settle the relations between persons in a family relationship between themselves and against third parties, differed from the property regulations of the Civil Code relating to family members or even confirming or supplementing them.

³ The services that appear in the contracts are grouped according to several criteria, but there can be four types of services in terms of type: the dare type, the service for the performance of an activity (facere type), the stand-up service (praestare type) and finally the tolerable service (non-facere type). (Leszkoven, 2015, pp. 94–95)

⁴ This does not mean, of course, that creditor protection does not appear in the contracts of the business. There may be a situation in which a third party is involved in addition to the contractual partners (e.g. in the case of the sale of a mortgaged real estate property), but such situations can also be settled by the general rules of the contracts.
However, we can also distinguish between a broader and narrower definition of family property contracts. The broadest interpretations include contracts of family entities affecting all property rights, such as the agreements governing the maintenance or the right of tenancy contracts. The narrower interpretation has decreased in two directions in the definition of contracts: on the one hand, in the case of the subjects, in a narrower sense, we can reduce the definition to contracts concerning the property relations of family members as in legally regulated relationships, and on the other hand, in terms of the subject of the contracts, we can include agreements that arrange the classical property relations. This division is created by Éva Csűri. (Csűri, 2006, p. 229) Accordingly, the classic property contracts of persons in a relationship can be divided into three categories:

- On the one hand, this includes contracts that settle the parties’ financial relations in the frame of dispositive rules and diverge from the family property law (especially the matrimonial property rules) of the Civil Code. The main function of these contracts is to determine the prevailing property status for the duration of matrimony or cohabitation of the parties. (hereinafter Type 1)

- On the other hand, this includes contracts terminating the family members’ financial relations, the purpose of which is to divide or even settle the parties’ property disputes according to the specific needs of the parties after the termination of the relationship. (hereinafter Type 2)

- Finally, we can include the classical contracts which, although not much different from the similar contractual relations of business, the character of the family law prevails so strongly that it is necessary to delimit. The characteristic of these contracts is that the parties are family members, they conclude the contract with each other, and the influence of the emotions is strong, therefore these contracts sometimes can violate the rights of third parties. This argument can justify the differentiation of these contracts from the other contracts of business life. (hereinafter Type 3)

Furthermore, the subject of the analysis consists of the latter, narrower interpretation, accordingly, where I mention a family property contract, which means only these three specific types of contracts.

In the case of family property contracts, the freedom of determining the content is significant. Thus, those who want to conclude a contract for their financial relations are most likely to want to adjust the content of their agreement to their individual life situations, taking advantage of the possibility of dispositivity. Therefore, the legislator does not specify obligatory content elements in the case of these contracts. In the case of Type 1, the two alternative property systems are provided only as guidelines for family members. The case law also took the view that neither the previous rules of the Family Act, nor the CC 2013 contains any restrictions or limitations on the minimum content of the property contracts, according to which the parties can only settle the position of their assets to be acquired in the future or settle other related civil rights issues in the property contract. (Barzó, 2017, p. 33)

In the absence of a minimum content, as Éva Csűri affixes, the contract is considered invalid as a property contract, but it can be considered valid as another
contract if it is suitable for both the content and formalities of them. (Csüri, 2016, p. 330) However, the deficiency of minimal content may also result in a deficiency of consensus between the parties, as they do not agree on the relevant content element. The CC 2013 declares that the conclusion of the contract requires the agreement of the parties on matters which are relevant, and which are considered relevant by either of them. [Art. 6:63(2) CC 2013] It can therefore also be concluded that the deficiency of minimum content does not result in the invalidity of the contract, but rather the non-existence. However, it can be accepted as a different contract. The minimum content varies in the different types of family property contracts. In the case of Type 3, the regular content (e.g. in a sales contract the details of selling itself) of the contract itself determines this question. Accordingly, for example, in a sales contract between family members, in addition to the need to record the intention to transfer property itself, in the case of real estate, minimum content elements corresponding to PED XXV must also appear in the contract of parties. In Type 1, the legislator creates necessary the criterion for family members that, instead of the application of the provisions of CC 2013, to choose a property system which they want to apply during their marriage or another kind of cohabitation. However, the establishment of a chosen system of property rights may cover either the assets of the parties as a whole or only a few assets. [Cf. Art 4:63(2) CC 2013] In Type 2, freedom of content also appears in a specific way, since the parties often argue that the sharing contract of the common property does not contain a balance mechanism or the agreement does not contain all assets. The Curia, as the Hungarian high court has pointed out in many cases that the fact if the sharing of the assets in a Type 2 contract is incomplete or not comprehensive does not make the contract controversial, because it does not cover every asset, common debts or any claim for reimbursement. It is acceptable because the rules of family law provide the possibility to renew or modify the contract or bind a new agreement about the missing assets. (Pfv. II. 20.685/2007.) Moreover, the balance mechanism is not an obligatory content element of the Type 2 contracts, because it is sufficient for the content to be valid if the assets are shared, the ownership rights are settled, and payment obligations are counted for each other by the parties – that is the based element to terminate their family property relationship. If, on the other hand, the parties do not agree on a specific payment obligation, just make a list of the assent one by one, estimate the value of these assets,

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5 Balancing mechanism is a technical procedure in jurisprudence of Hungarian courts. The purpose is to equalize property relations during the sharing of assets of the spouses. Within this framework, the parties’ common property will be separated from their separate/individual assets, and their obligations to each other – which the Hungarian legislation calls the claim for reimbursement – will also be in account. As a result, the claims between the parties are settled and there is nothing left but pure common property, which the court must distributes. This solution is applied primarily in the case of sharing the matrimonial property, but it is also necessary to adopt it in case of civil partners for the sharing of jointly acquired property, since the legislator orders that the civil partners have to share their assets in jointly acquired property as the spouses, so the court’s procedure is the same.
and with this value calculate the ‘debt’ owed to each other by the amount of these, but do not agree about the details of the sharing, it does not create a right for the claim. (Pfv. II 21.525/2009.) Moreover, if the contract does not show that the content is the final intention to terminate the property relations of the parties, and the settling of accounts is comprehensive, so they will be not any claim against each other, it cannot be considered as Type 2 contract as well. (Pfv. II 21.057/2009.)

Summarizing all of these it is clear that family members enjoy great freedom when arranging their property relations. However, this freedom is not unlimited. The legislator has also incorporated several limitations into the CC 2013, which are purely family law solutions on the one hand, but on the other hand, they can be derived from the rules of obligation law. Among the norms of family law, the content-forming effect of the principles and the special provisions protecting third parties or creditors, limited the content of the contract, while on the side of the obligation law the main limitation is the question of the invalidity and ineffectiveness of the contracts. (For more details see Kriston, 2020c) The detailed introduction of all the limitations would significantly exceed the framework of this study, and accordingly, as can be seen from the title of the study, I will build argumentation and presentation around a certain problem, the analysis of the question of the immorality of these contracts. I am looking for the answer to the question, what are the unique features and interpretation possibilities of immorality in family property contracts and how can immorality influence and break down the freedom to determine the content and private autonomy in these contracts?

2. SOME THOUGHTS ABOUT THE IMMORALITY

Like many other private legal institutions, immorality originates in Roman law, even the contemporary legal scholars were convinced that the law was not merely a set of substantive laws without content, but based on certain moral foundations. The principle ‘contra bonos mores’ appeared in the interpretation of the legal rules even before Christianity, according to which the right to immoral conduct or behavior cannot be acceptable. (Földi and Hamza, 1996, p. 486) The old Hungarian private law also took over and acknowledged the importance of good morality6, and then the science of socialist civil law and the codification – in the words of Barnabás Lenkovics– ‘threw it away’ and replaced it with the requirements and expectations of socialist coexistence. (Lenkovics, 2017, pp. 319–320) At the same time, the collision with good morals as a reason for invalidity has a place in both the CC 1959 and the current regulations in CC 2013 also. Finally, Act XIV of 1991 reinstated it to the definition system. (Körös, 2017, p. 313) The legislator declares in Article 6:96 of the CC 2013 that a contract shall be null and void if it is manifestly in contradiction to good morals. As it can be seen, the legislator gives us only a framework regulation,

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6 Károly Szladits said, according to the law, sometimes even the violation of a moral duty effect disadvantageous legal consequences and this makes the moral duty a legal duty, and its violation lead us to unlawful behaviour. He marks also, that immoral contracts cannot be a base of a claim. (Szladits, 1937, p. 182)
as we called in Hungary, ‘general clause’. The general clause is formulated openly as a framework for regulation, so it is difficult to adjudicate the content elements – what can be immoral in the legal sense. Many authors point out that the concept of immorality should be defined by the courts in view of the individual and all the circumstances of the case.\footnote{István Szászy said, according to the judicial discretion, it determines which transactions are immoral. ‘In judicial practice, guidelines have emerged in all ages as to what is the moral perception prevailing in the people’s community, and if the content of the transaction does not correspond to this moral standard, the transaction should be considered null and void.’ (Szászy, 1949, p. 84) See also Vékás, 2016, pp. 127–128.} Attila Menyhárd identifies the content of this legal institution as a judgment of a person who thinks fair and square, reasonable and equitable. (Menyhárd, 2004, p. 99) In determining the criteria for immorality, the courts take the general judgment of society as the basis for which András Kőrös notes that it cannot be interpreted extensively because it would violate the freedom of the contract and, through it, the private autonomy of the parties. (Kőrös, 2017, p. 313) Accordingly, in determining a conflict with good morals, it is necessary to examine not the harm to the interests of the Contracting Party, but whether the legal transaction itself is socially reprehensible. (Barzó, 2017, p. 33) Another very important characteristic of immorality is that it is a subsidiary legal institution, which means it can be used only if there is no other concrete regulation for the violation of the contract. (Vékás, 2016, p. 128) For example, the value of the services in the contract is very high, and society reprehends it but in CC 2013 there is a special invalidity reason for this situation, the gross disparity in value. (Art. 6:98 CC 2013) Therefore, we cannot say automatically that the contract is immoral because of the value, and first, we must consider the possibility of gross disparity in value.

The Curia also accentuates that immoral contracts can be considered according to the conditions existing at the time of the binding of the contract, and the subsequent changes cannot be considered when assessing the conflict of the contract with good morals. (BDT 2010.2269., BH 2016.280.) In the same case, the Curia also notes that the contract can only be regarded as null and void if the conflict with good morals is obvious. From this, it concludes that, with due care, both parties should be aware that the content of the contract is intended to achieve a prohibited purpose, that its unethically is obvious to them, but that the good or bad faith of the parties is no longer relevant. (BDT 2010.2269.)

After all, the characteristics of immoral contracts can be summarised as follows:

- a collision with good morals is a subsidiary fact that can only be applied if there is no specific legal provision based on which the disputed situation can be decided,\footnote{Immorality is a subsidiary title, which means that it cannot be established on its own on the basis of circumstances which serve as the basis for the invalidity reason referred to in the law. (EBH 17.P.2010.)}
- the basis of the judgment is the value judgment of society and not the unfair situation of the contracting party,

\footnote{\textit{The legal role of immorality in family property contracts}}
the good or bad faith of the parties is irrelevant in determining immorality,
− the collision with good morals must exist at the time of the conclusion of the contract, and the changes in circumstances do not subsequently affect the validity of the contract. (Kőrös, 2017, p. 313)

3. IMMORALITY IN FAMILY PROPERTY CONTRACTS

The content of family property contracts can be affected by several invalidity reasons. In judicial practice, one of the most frequently examined questions is the immorality of these contracts.

The examination of the collision of family property contracts with good morals may be based on the different and often unbalanced financial situation of the parties, as stipulated in the contract. Whether it is any type of property contract, the party to the dispute most often complains about the unfairness of the state of the property on the grounds of this legal institution. (See for example BH 2011.337., BH 2000.539., BDT 2010.2269., EBH 2011.2403.) However, equity cannot provide the consideration of social, but the individual aspects, requiring the interpretation of the regulation defining the facts in general given the specific characteristics of the case. Therefore, inequity should not be the reason for the treaty's immoral contracts. (Kőrös, 2017, p. 317 and BH 278.278.2001.)

In addition, in several cases the supreme court that it is not conflicting with the general moral conception of society if one party gives the other a free financial advantage at the expense of his property, nor does it if he transfers his common property to his/her own property of the spouse. (BH 1999.409., BH 2000.539.) In addition, it stated that the family property contract is not immoral because it defines the property questions of the parties differently from the law. (BH 2011.337.) However, it declared immorality in cases where the parties intended to dispossess the spouse. The behaviour of the parties to jointly manage until the termination of the family property contract and establish a family order according to one party runs the household and raises the children, and the other ensures the circumstances of luxurious life, and then retroactively binding a family property contract about separation of assets and excludes the party leading the household from the property, obviously violates the general value judgment of the society. (Pfv. II. 21.696/2014.) However, it is also important to examine the social and cultural background of the parties, because in cases where the parties come from a state that differs from domestic regulation in terms of tradition and legal system, and where the personal

9 It conflicts with good morals, as a result, the point of the marriage property contract (partial invalidity) which, even going back to the establishment of the community of life 17 years earlier, and not only excludes the community of property for the future, and in this connection only one of the parties names all the properties listed under a common name in the land register, or the share of the business jointly owned according to the register of companies, as separate assets. The contract declared the complete absence of the common property without even containing an indirect reference to the fact that the parties had shared the jointly acquired assets. (BH 2015.254.)
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and property inequality between the partners – and its flagrant realization – is accepted at the social level, the contractual terms, which determine this situation of the parties, cannot be immoral. (Pfv. II. 21.240/2007.) It is also not conflicting with the popular opinion that spouses, registered partners, or de facto partners conclude their property contract with the purpose of excluding the subsequent claim for compulsory heirs of the descendant. (Pfv. II. 21.737/2006.) Therefore, when examining immoral contracts, the entirety of the legal transaction itself must be taken into consideration, based on the circumstances at the time of the conclusion of the contract, compared to the parties’ intentions and the objectives to be achieved by the contract. Accordingly, judicial practice interprets the establishment of immorality narrowly to ensure contractual freedom and considers it justified only in the case of a seriously flagrant and one-sided contract. (BH 2015.254.) In this context, the Curia also points out that, in determining the existence of that reason for invalidity, it is necessary to examine not the harm or violence to the interests of the contracting party, but the social reprehensibility of the legal transaction. The general social perception is not opposed to, for example, when the partners settle only the legal status of an asset from their common property, nor if the value of the assets is not determined, in addition to establishing the method of sharing. (Pfv. II. 20.069/2017.)

4. SUMMARY

The purpose of family property contracts is to settle the parties’ property relations for the duration of their relationship and its termination. Accordingly, the contract is not one of the business contracts, which the legislator provides by the special legal rules. However, it is a contract, it is also governed by the rules of the law of obligation, in particular the law of the contract, in addition to the norms of family law.

To secure the private autonomy for the parties, the freedom to determine the content of the contract is very significant in these contracts, and accordingly, the State tries to intervene in these life situations only in a manner consistent with its obligation to protect this institution (family protection). However, the freedom to determine the content of the contract is not limitless. Both family law and obligation law provide limits that adequately restrain the parties’ freedom of action.

One of the limitations is the invalidity of contracts. CC 2013 contains several grounds for invalidity. However, not all of them can be applied in the contractual relationships of the family members. The most typical ground for invalidity that jurisprudence has dealt with on numerous occasions is the immorality of contracts.

The basis of immoral contract as a ground for invalidity is the social perception, as a result of which it is necessary to take into account not the individual’s interest, but the general expectations of the society. In family property contracts, immorality is often the subject of a claim, but in many cases, the parties try to identify inequity by a collision with good morals. That is why the jurisprudence of the Hungarian courts consistently follows the standpoint that the unfair situation arising as a result of the contract does not result in a collision of the treaty with good morals.
Another important statement of the Curia is that the freedom of contract and the guarantee of private autonomy of the parties require the courts to intervene only in situations where there is a flagrant level of grievance. Accordingly, the conflict of family property contracts with good morals can be based primarily on extremely flagrant contractual clauses and unacceptable to society.

REFERENCES


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