Novation Agreement

The word ***novation*** means to replace or substitute. When dealing with ***contracts*** it means to ***replace*** an old obligation with a new one.

When a contract is ***novated***, both parties agree that the ***responsibilities*** and ***obligations*** of one party are transferred from the original signee to a ***new*** third party.

The original party, often the original signee, is freed from the original agreement, creating a ***new*** contract with ***new*** parties.

Three-way Contract

This is sometimes referred to as a ***three-way contract*** as it requires three signatures, which extinguishes an ***old contract*** and replaces it with another ***new contract*** in which a third party takes up the rights and obligations.

There are three basic types of novation agreement or contract:

1. The first type; there's no intervention or involvement of another party, instead someone who owes a debt enters in a new agreement with their original lender.
2. The second type of novation of contract involves the entrance of a new debtor that accepts the debt from the original debtor.
3. The third type of novation of contract involves a new creditor taking the place of the original creditor, with the original debtor now paying the new creditor.

There must be ***four elements*** that make up a ***lawful*** and ***legally*** binding novation agreement. To prove novation occurred, these four elements must be shown and submitted when requested:

1. The existence of a previously valid contract.
2. The agreement of the parties to cancel the first contract.
3. The agreement of the parties that the second contract replaced the first.
4. The validity of the second contract.

Note: the validity of the second or new contract must be backed up by the novation agreement that bears all ***three signatures*** of all parties involved.

When a debt is sold, the ***obligated debtor*** must ***consent*** to this action carried out by the ***original principal creditor*** by signing the ***novation agreement***, to ***allow*** a new contract to be drafted with the ***new creditor***.

Without this agreed upon ***novation contract***, the debt ***cannot*** be sold by the creditor unless the debtor had already agreed to this in the ***original contract***, in which case a ***deed of assignment*** is usually used.