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Fraud In The Inducement: Everything You Need to Know

Fraud in the inducement is a term used for contract fraud and occurs when one party involved in the contract used deceit or trickery to get the other party or signer to act for their advantage. • 3 min read *updated on February 01, 2023*

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Fraud in the inducement is a term used for contract fraud and occurs when one party involved in the contract used deceit or trickery to get the other party or signer to act for their advantage. For fraud in the inducement to have occurred:

- One of the parties had been misled by the facts
- The wrong facts were used for the party to make their decision

An example would be a person telling another that they need to sign the property over to them to prevent their home from going into foreclosure. They are misleading the person into signing the deed of their home over to the other party using fear. For fraud in the inducement to occur, there has to have been circumstances that pushed the person to act. This is what separates it from the term fraud in factum, which refers to deceitful subject matter in a contract.

Fraud in the inducement specifically refers to a form of trickery that was used against someone to enter into an agreement that was to their disadvantage. The guilty party in this type of case will have used the information to purposely mislead the other signer in an attempt to get them to go against their best interest. If this type of deceit occurs, it would be unfair to require that the deceived party abide by the terms of the contract that was fraudulently agreed upon. Once proof of fraudulent inducement has been given, the defrauded party will likely be able to get the transaction rescinded, as well as seek monetary damages from the party that deceived them.

It is important to note that there is a difference in such items as fraud in the inducement (<https://www.mccaberabin.com/business-copyright-faq/what-is-fraudulent-inducement/>) and fraud in the factum. One of the primary differences is that fraud in the inducement will occur before the contract is signed and is part of the original agreement process. The fraud will basically consist of misrepresenting the facts or material with the intentional purpose of cheating or defrauding the other party.

What Is Fraud in the Factum?

The other type of contract fraud, referred to as fraud in the factum (https://en.wikipedia.org/wiki/Fraud_in_the_factum), involves deceit that has been done by the offending party. This can include such acts as:

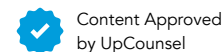
- Forging the other party's signature
- Altering a contract that has already been signed and agreed upon

Other types of fraud can also go beyond the actual writing and execution of the contract and be relative to the performance of the contract, as well as other noncontractual factors. An example would be a home that is built as part of the construction process. The builder shows that a deck is going to be built in a quality workmanlike manner, when in fact the builder knows it has not been. The homeowner, who then believes the builder, uses the deck when it collapses. In this situation, the builder could end up liable in tort. The fraud (<https://www.upcounsel.com/fraudulent-misrepresentation>) was not used to get the

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homeowner to sign a new contract, but occurred by the homeowner using the deck as it was listed in the contract, which the builder did not deliver. The fraud occurred by the builder not performing their duty. This is referred to as noncontractual fraud.

Examples of Both Types of Fraud

There are many examples of fraud in the inducement. An example that can occur during an investment contract (<https://www.upcounsel.com/contract-law>) would be an individual telling another that they are a licensed broker to get them to sign an investment contract, when in fact they are not. This would be a case of fraud in the inducement because the deceiving party claimed fraudulent credentials in order to induce the other party to sign with them as they believed they are retaining the services of a licensed individual.

An example of fraud in the factum could involve a grandchild telling their grandparent to sign a letter when the document was, in fact, an addendum to his will, altering it to leave all of the assets to the grandson.

What Happens When Fraud in Inducement Occurs

Since fraud in the inducement is illegal if a court found that the fraud occurred, they can make the contract voidable, releasing the party from any obligation to it. In addition to invalidating the contract, the plaintiff may also seek out monetary damages as well.

If you need help with learning more about fraud in the inducement, you can post your legal need (https://www.upcounsel.com/jobs/new?page_location=article-paj-hyperlink-content) on UpCounsel's marketplace. UpCounsel accepts only the top 5 percent of lawyers to its site. Lawyers on UpCounsel come from law schools such as Harvard Law and Yale Law and average 14 years of legal experience, including work with or on behalf of companies like Google, Menlo Ventures, and Airbnb.



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