

14.5: Termination of Agency Relationship

Agents and principals may end their agency relationship in various ways. The most common way is through mutual agreement. As a matter of contract, principals and agents may decide to end their relationship. For example, an employee may decide to quit his or her job, or the agency agreement may only be for a set period of time or for a specific transaction.

In addition, there are some events that will terminate an agency relationship as a matter of law. Death of a principal or agent automatically terminates the agency agreement, even if the other party is unaware of the death. Once the time of death is established, any transactions afterward are deemed void.

Similar to death, mental incapacity of a principal or agent terminates an agency relationship. It is often hard to determine the precise time someone loses mental capacity. Therefore, courts often hold that an agent's contract with a third party is binding on the principal unless the third party was aware of the principal's incapacity.

Bankruptcy terminates an agency relationship when the bankruptcy affects the subject matter of the agency agreement. For example, if a principal declares bankruptcy and the real property that an agent is authorized to sell is part of the bankruptcy estate, then the bankruptcy will automatically terminate the agency relationship.

Finally, the destruction or illegality of the subject matter will terminate the agency relationship. For example, if Congress passes a law making it illegal for private parties to sell specific types of weapons, the agency relationship between a gun dealer and its factor for selling those weapons will automatically end.

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