

### Title:

**\*\*ATCI Overseas Corporation and Amalia G. Ikdal vs. Asset Pool A (SPV-AMC), Inc.: Analysis of a Simulated Loan Agreement\*\***

### Facts:

The case originates from a complaint filed by Asset Pool A (SPV-AMC), Inc. (APA) on February 2, 2007, against ATCI Overseas Corporation (ATCI) and Amalia G. Ikdal, aiming to recover US\$1,000,000.00. This amount represented the alleged unpaid balance of a loan initially extended by United Coconut Planters Bank (UCPB), APA's predecessor-in-interest, to the petitioners through a Loan Agreement and a Promissory Note both signed in 1993, secured by a Surety Agreement.

Contrarily, ATCI and Ikdal contested the loan's existence, deeming it a simulated transaction intended to mask a dollar remittance venture in Kuwait due to restrictions on foreign banks. They argued no credit was extended, asserting they were merely a facade for UCPB's operational funds' release.

A trial on the merits followed, wherein APA sought to establish the loan's validity mainly via notarized documents and partial payment acknowledgments from petitioners. ATCI and Ikdal's defense pivoted on demonstrating the loan's simulation, referencing their groundwork for UCPB's remittance business in Kuwait and lack of actual fund transfer to them for the purported loan.

The Regional Trial Court (RTC) ruled in APA's favor, a decision affirmed by the Court of Appeals (CA).

### Issues:

1. Whether the agreement between UCPB and ATCI was a bona fide loan or a simulated transaction.
2. The validity of the transfer of rights/interests from UCPB to APA under the SPV Act of 2002.
3. Whether the claim was barred by prescription.

### Court's Decision:

The Supreme Court reversed the lower courts' decisions, holding the transaction as simulated based on:

- The unusual nature of a considerable loan being unsecured and the disregard of the Bangko Sentral ng Pilipinas' (BSP) strict guidelines for uncollateralized loans, which the

petitioner's financial state at the time would not have qualified for.

- ATCI and Ikdal's detailed account of the UCPB's use of them as a cover for its remittance business operation in Kuwait, which Admission Pool A (APL) failed to convincingly counter.
- The lack of action by UCPB over several years to enforce the alleged loan agreement until its rights/interests were assigned to APA.

The court concluded that the Loan Agreement was entirely simulated and thus void, dismissing APA's complaint for sum of money for lack of merit.

### ### Doctrine:

Simulated Contracts - An absolutely simulated or fictitious contract is void, according to Articles 1345 and 1346 of the New Civil Code. The parties to a simulated contract, which is intended to deceive third parties or violate the law, cannot seek relief based on such a contract.

### ### Class Notes:

- **Simulated Contracts:** Contracts that do not intend to bind parties or hide their real agreement.
- **Banking Practices:** Even significant unsecured loans must adhere to strict regulatory guidelines, including proofs of the borrower's financial capacity.
- **Loan Agreements:** A genuine loan agreement involves an actual disbursement of funds and an intention to repay, underpinned by the borrower's capability to secure or repay the loan.
- **SPV Act of 2002:** The legal framework for transferring non-performing assets/loans to Special Purpose Vehicles (SPVs). Parties to the original agreement cannot question the assignment to SPVs unless privy to it.
- **Presumption of Regularity:** Notarized documents are prima facie evidence of the truth of their contents, which can be rebutted by clear and convincing evidence.

### ### Historical Background:

The case underscores the Philippine judicial system's recognition of simulated contracts as void, demonstrating the judiciary's commitment to upholding contractual integrity and preventing the circumvention of regulatory banking frameworks. Through this landmark decision, the Supreme Court has reiterated its stance on simulated contracts and banking practices, thereby reinforcing the principles of contractual authenticity and legal compliance in the financial industry.