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Annulment Of A Debt Agreement By Operation Of Law From The Perspective Of Civil Law: An Analysis Of District Court Decision Number 17 Of 2021

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Abstract

A debt agreement constitutes a legal relationship that gives rise to rights and obligations between a creditor and a debtor. The validity of this relationship depends on the fulfillment of the legal requirements of an agreement as stipulated in the Indonesian Civil Code. This study aims to analyze the legal basis for the nullification of debt agreements and the legal protection afforded to creditors and debtors in District Court Decision Number 17 of 2021. This research employs a normative legal method using statutory, conceptual, and case approaches. The primary legal materials consist of the Indonesian Civil Code and court decisions, while the secondary legal materials are derived from relevant books, journal articles, and legal publications. The legal materials were collected through document analysis and literature review and subsequently analyzed qualitatively. The findings indicate that a debt agreement may be declared null and void by operation of law when it fails to satisfy the objective requirements of a valid agreement, particularly those concerning a specific subject matter and a lawful cause. Such nullity results in the agreement being deemed never to have had binding legal force. Legal protection for the parties is provided by restoring them to their original positions before the agreement was concluded, including the return of money, goods, or collateral that had been transferred. Judicial decisions should clearly determine the consequences of nullification to ensure that the rights of both creditors and debtors are protected fairly.

Keywords: debt agreement, null and void by operation of law, agreement, creditor, debtor.

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INTRODUCTION

Debt and credit constitute a legal relationship commonly used to meet personal needs, support business activities, and provide other forms of financing. This relationship is established when a creditor transfers a sum of money or certain goods to a debtor, who is obliged to return them in the amount, type, and within the period agreed upon by the parties. Under civil law, debt and credit may essentially be classified as a loan agreement, as regulated under Article 1754 of the Indonesian Civil Code. Such an agreement creates reciprocal rights and obligations, namely the creditor's right to obtain repayment and the debtor's obligation to return the object of the loan in accordance with the agreement (Bua et al., 2025).

The binding force of a debt agreement is determined not only by the transfer of money or goods but also by the fulfillment of the legal requirements for a valid agreement. Article 1320 of the Indonesian Civil Code establishes four requirements: the consent of the parties, legal capacity to perform legal acts, a specific subject matter, and a lawful cause. Consent and legal capacity constitute subjective requirements, whereas a specific subject matter and a lawful cause are objective requirements. All these requirements must be fulfilled for an agreement to bind the parties and be performed in accordance with the principle of *pacta sunt servanda*. In its implementation, the parties are also required to act in good faith and fulfill the agreed obligations (Tuerah, 2024).

The distinction between voidable agreements and agreements that are null and void by operation of law is a significant issue in legal practice. A violation of the subjective requirements generally allows an interested party to request the annulment of the agreement. Conversely, the failure to fulfill the objective requirements renders the agreement null and void by operation of law and means that it is deemed never to have created a valid legal relationship. This issue becomes increasingly complex when the formation of an agreement is affected by mistake, coercion, or fraud. Fraud may constitute grounds for annulment when a series of deceptive acts or false statements has influenced another party in granting consent (Hatimah & Wagian, 2025).

The annulment of a debt agreement produces legal consequences that differ from those arising from a breach of contract. A breach of contract occurs when a valid agreement is not performed, is performed late, or is performed in a manner inconsistent with its terms. Under such circumstances, the creditor may demand the performance of the obligation, termination of the agreement, and compensation in accordance with the Indonesian Civil Code. By contrast, an agreement that is null and void by operation of law involves a defect in its validity from the outset. Therefore, judges must accurately determine whether a dispute arises from the failure to perform

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obligations under a valid agreement or because the agreement failed to satisfy the objective requirements from its inception.

Clarity regarding the legal status of an agreement also affects the legal protection afforded to creditors and debtors. A legally valid agreement applies as law to the parties, thereby entitling the creditor to demand the performance of obligations or compensation when the debtor commits a breach of contract. The creditor's protection may be strengthened through proprietary security rights that are properly created and registered in accordance with applicable law. Conversely, improperly registered security may cause the creditor to lose preferential status and the authority to directly execute the secured object (Afifah & Mahmudah, 2024). At the same time, the debtor is entitled to protection against collection practices, control over collateral, or enforcement of an agreement that is contrary to law.

Security in a debt relationship cannot be separated from the validity of the principal agreement. The creation of security through a deed and registration in accordance with the applicable procedures provides certainty regarding the creditor's legal position and the repayment mechanism when the debtor fails to fulfill the obligation. A mortgage certificate, for example, carries executorial force and strengthens the creditor's right to the proceeds from the sale of the secured object. Nevertheless, the use of security must continue to respect the debtor's rights and be carried out through lawful procedures to prevent arbitrary conduct (Lubis & Harahap, 2023). When the principal agreement is declared null and void by operation of law, the legal status and enforceability of the security arrangement must also be carefully assessed.

This study focuses on the nullification by operation of law of a debt agreement, as reflected in District Court Decision Number 17 of 2021. The primary issues examined include the legal basis for assessing the validity of the agreement and the forms of legal protection available to creditors and debtors. An analysis of the decision is necessary to evaluate the accuracy with which the legal requirements of a valid agreement were applied, particularly in distinguishing an agreement that is null and void by operation of law from an agreement that is merely voidable or a dispute arising from a breach of contract. Based on this focus, the study aims to examine the legal grounds for nullifying a debt agreement, the resulting legal consequences, and the legal protection afforded to the parties after the agreement is declared to have no binding force.

RESEARCH METHOD

This study employed a normative legal research method with a descriptive-analytical approach. Normative legal research was used to examine the legal provisions governing the

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validity of loan agreements and their application in court decisions. The approaches adopted in this study consisted of the statutory, conceptual, and case approaches. The statutory approach was applied by examining the provisions of the Indonesian Civil Code and other regulations related to agreements, debts and receivables, banking, and collateral. The conceptual approach was used to analyze the concepts of the legal requirements of an agreement, nullity by operation of law, breach of contract, and legal protection for creditors and debtors. Meanwhile, the case approach was conducted by analyzing District Court Decision Number 17 of 2021 as the primary object of this study.

The legal materials used in this study consisted of primary and secondary legal materials. The primary legal materials included the Indonesian Civil Code, relevant laws and regulations, and the court decision examined in this study. The secondary legal materials were obtained from books, journal articles, research findings, and legal literature discussing contract law and loan agreements. The legal materials were collected through document analysis and a literature review. All legal materials were subsequently analyzed qualitatively by identifying, classifying, and interpreting the applicable legal provisions and the judges' legal considerations. The results of the analysis were used to assess the legal grounds for declaring a loan agreement null and void, the resulting legal consequences, and the forms of legal protection available to the parties.

RESULTS AND DISCUSSION

The Position of Loan Agreements under Civil Law

A loan agreement constitutes a legal relationship involving a creditor as the party providing the loan and a debtor as the party receiving it. This relationship gives the creditor the right to obtain repayment and imposes an obligation on the debtor to repay the loan in accordance with the agreed amount, form, and period. Therefore, a loan relationship does not merely have an economic dimension but also creates binding legal consequences for the parties.

Under the Indonesian civil law system, loan agreements fall within the law of obligations regulated in Book III of the Indonesian Civil Code. Such obligations arise from an agreement between the parties intended to establish specific rights and obligations. A loan agreement is classified as a lending and borrowing agreement as stipulated in Article 1754 of the Indonesian Civil Code. The recipient of the loan is required to return goods of the same quantity and type. Where the object of the loan is money, the debtor is required to repay the amount in accordance with the agreed value (Utami & Salim, 2023).

The existence of an agreement provides the legal basis for the creditor to demand

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performance from the debtor. A lawfully concluded agreement has binding force, as affirmed in Article 1338 paragraph (1) of the Indonesian Civil Code. This provision reflects the principle of *pacta sunt servanda*, under which every agreement lawfully made applies as law to the parties who concluded it. The creditor may only claim the rights that have been agreed upon, while the debtor is required to perform the obligations within the scope specified in the agreement.

The binding force of a loan agreement depends on the fulfillment of the legal requirements for a valid agreement. The parties must reach mutual consent, possess legal capacity, determine a specific object, and base the agreement on a lawful cause. An agreement that satisfies these requirements provides certainty regarding the amount of the loan, repayment period, interest, security, and dispute resolution mechanism. Kurnaliah & Aminah (2024) explain that a loan agreement may be set out in either a private deed or an authentic deed, while a legally valid deed of acknowledgment of debt possesses legal force and binds the parties.

In addition to complying with the requirements for a valid agreement, loan relationships are governed by the principle of freedom of contract. The parties are free to determine the content and form of the agreement, provided that it does not conflict with statutory provisions, morality, or public order. Such freedom includes determining the amount of the loan, payment method, repayment period, interest, and form of security. Nevertheless, freedom of contract cannot be used to justify clauses that unreasonably prejudice one party or grant unlimited authority to the creditor.

The performance of the agreement must also be based on good faith, as stipulated in Article 1338 paragraph (3) of the Indonesian Civil Code. The creditor is required to provide clear information regarding the amount of the debt, interest, penalties, and the consequences of late payment. The debtor is required to provide accurate information regarding their financial capacity and to make payments in accordance with the agreement. Good faith is required from the formation of the agreement through its performance so that the relationship between the parties is not based on fraud, abuse of circumstances, or conduct contrary to propriety.

In practice, loan agreements are often accompanied by security to ensure repayment. Security provides the creditor with a stronger legal position if the debtor fails to fulfill their obligations. However, the effectiveness of such protection depends on the manner in which the security is created and registered. Afifah & Mahmudah (2024) demonstrate that a creditor whose security has not been registered as a mortgage right does not obtain the status of a preferred creditor and does not possess direct executorial authority over the secured object. Accordingly, the validity of the principal agreement must be accompanied by the establishment of security in accordance with the applicable legal procedures.

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The positions of the creditor and debtor in a loan agreement must, in principle, be balanced. The creditor is entitled to receive payment, demand performance, claim compensation, and enforce the security through lawful procedures. The debtor is entitled to obtain proof of payment, recover the security after the debt has been fully repaid, and receive protection against collection or enforcement measures that violate the law. Such balance prevents the agreement from being used solely as an instrument to prioritize the interests of one party.

Where the debtor fails to fulfill their obligations, the dispute may be classified as a breach of contract, provided that the underlying agreement is valid. A breach of contract may take the form of non-performance, delayed performance, performance that does not comply with the agreement, or conduct prohibited under the agreement. In such circumstances, the creditor may demand performance, compensation, termination of the agreement, or a combination of these remedies. Conversely, where the agreement did not satisfy the legal requirements for validity from the outset, the legal issue must first be directed toward assessing the validity of the agreement rather than merely examining the debtor's failure to fulfill their obligations.

Accordingly, a loan agreement serves as a source of obligation that determines the scope of the creditor's and debtor's rights and obligations. A valid agreement provides a legal basis for the creditor to pursue repayment and enables the debtor to understand the extent of their obligations. Conversely, defects in consent, legal capacity, the object, or the cause of the agreement may eliminate or limit its binding force. The validity of the agreement must therefore be examined before determining the existence of a breach of contract, cancellation, or other legal consequences.

Validity Requirements of an Agreement and the Concept of Being Null and Void by Operation of Law

The validity of a loan agreement is determined by the fulfillment of the requirements set forth in Article 1320 of the Indonesian Civil Code, namely the consent of the parties, legal capacity to enter into an obligation, a specific subject matter, and a lawful cause. These four requirements provide the basis for determining whether an agreement may create binding rights and obligations. An agreement that fails to satisfy these requirements may lose its legal force, either through annulment at the request of an interested party or because it is deemed null and void by operation of law from the outset.

Consent and legal capacity constitute subjective requirements because they relate to the parties entering into the agreement. Consent must be freely given without mistake, coercion, or

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fraud. The intention expressed in the agreement must reflect the parties' genuine approval. Article 1321 of the Indonesian Civil Code provides a legal basis for challenging consent formed as a result of a defect of will. Ginting (2025) explains that mistake, coercion, and fraud may constitute grounds for annulment because such circumstances prevent consent from being freely given.

Legal capacity concerns a person's ability to perform legal acts and bear the consequences arising from them. In principle, every person is presumed legally capable unless otherwise provided by law. An agreement entered into by a legally incapable party is not automatically regarded as never having existed. Instead, the party protected by law may request its annulment. Sopiani et al. (2024) emphasize that the failure to satisfy a subjective requirement does not render an agreement null and void by operation of law but grants a particular party the right to seek its annulment.

A specific subject matter and a lawful cause are categorized as objective requirements because they concern the content and purpose of the agreement. The subject matter must be identifiable by type, capable of performance, and fall within the scope permitted by law. In a loan agreement, the subject matter generally consists of a sum of money or consumable goods, while the debtor is obliged to return goods of the same kind and quantity. Uncertainty concerning the amount of the loan, the repayment period, or the object of payment may create ambiguity regarding the performance that must be fulfilled.

A lawful cause does not refer to the parties' personal motives but to the legal purpose intended to be achieved through the agreement. The contents of an agreement must not conflict with statutory provisions, morality, or public order. The parties' freedom to determine the contents of an agreement therefore remains subject to legal limitations. Kana et al. (2024) demonstrate that an agreement used to circumvent prohibitions imposed by statutory regulations cannot be justified solely on the basis of the principle of freedom of contract. Such an agreement may be declared null and void by operation of law because it contains an unlawful cause.

The distinction between subjective and objective requirements determines the legal consequences that arise. When a subjective requirement is not fulfilled, the agreement is voidable. Until an annulment is ordered or legal action is taken by the entitled party, the agreement remains valid and binding. By contrast, when an objective requirement is not fulfilled, the agreement is null and void by operation of law. Lestari & Andriyani (2023) explain that failure to satisfy an objective requirement causes the agreement to be regarded as never having created an obligation, whereas a violation of a subjective requirement merely grants the right to request annulment.

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The concept of being null and void by operation of law indicates that the defect in the agreement has existed since the agreement was concluded. In theory, such an agreement is deemed never to have possessed binding legal force and cannot serve as a basis for demanding the performance of an obligation. Nevertheless, a judicial determination remains necessary when the parties dispute the existence of such a defect. A court judgment provides certainty regarding the legal status of the agreement and determines the remedial measures that must be taken after the agreement has been declared invalid.

The assessment of an agreement's validity cannot be based solely on the form of the document or the existence of an authentic deed. The examination must also address the substance of the legal relationship, the parties' actual intentions, and the conformity of the agreement's contents with the law. An agreement formally structured as a sale and purchase but materially intended to serve as security for a debt or as a means of circumventing legal provisions may contain an objective defect. Nirmolo (2026) found that a loan relationship disguised as a sale and purchase agreement with a right of repurchase was declared null and void by operation of law because it lacked a lawful cause and was contrary to the principle of good faith.

An agreement that is null and void by operation of law must be distinguished from the termination or cancellation of an agreement due to breach of contract. A breach of contract occurs after a valid agreement has been formed but one of the parties fails to perform its obligations. In such circumstances, the legal relationship remains recognized, and the injured party may demand performance, compensation for damages, or termination of the agreement. By contrast, nullity by operation of law concerns the failure to satisfy the validity requirements from the outset. Therefore, a claim based on breach of contract cannot be properly applied when the underlying agreement itself is invalid.

The principal consequence of an agreement being null and void by operation of law is the loss of its binding force. In principle, the parties must be restored to the positions they occupied before the agreement was concluded. Any money, goods, or security documents that have been transferred must be returned to the party entitled to them. Derivative rights dependent on the principal agreement must also be reassessed because ancillary agreements generally follow the validity of the principal agreement. Nevertheless, nullity does not necessarily eliminate the obligation to return benefits already received, since allowing one party to retain such benefits may result in injustice or unjust enrichment.

Accordingly, the examination of a loan agreement must be conducted in two stages. The first stage assesses whether consent, legal capacity, a specific subject matter, and a lawful cause

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have been fulfilled. The second stage determines the legal consequences based on the type of requirement that has been violated. This distinction is essential to prevent judges from equating voidable agreements, agreements that are null and void by operation of law, and valid agreements that have not been performed. The accuracy of this classification determines the status of the legal relationship, the scope of the claims, and the forms of legal protection that may be granted to creditors and debtors.

Case Background and the Legal Positions of the Parties

The case examined in this study originated from a legal debtor–creditor relationship between a lender and a borrower. The lender held the position of creditor because it had the right to recover the funds that had been advanced, while the borrower held the position of debtor and was subject to the obligation to repay the loan. The relationship subsequently developed into a dispute due to differing views concerning the validity of the agreement, the payment obligations, and the legal status of the asset used as collateral. The principal issue was not limited to the debtor's failure to make payment, but also concerned the validity of the legal basis giving rise to the creditor's right to claim repayment from the debtor.

The legal positions of the creditor and debtor in a loan relationship arise once an agreement has been reached and the object of the loan has been delivered. The creditor acquires a right to claim repayment under the agreement, while the debtor is required to repay the loan in the amount and within the period determined by the parties. Payuwaha (2025) explains that a creditor is a party that holds a receivable or right of claim, whereas a debtor is a party that bears a payment obligation arising from an agreement or statutory provision. Accordingly, the legal positions of the parties must be determined on the basis of the legal relationship actually established rather than merely the designations used in the contractual document.

In the case concerned, the creditor based its claim on the existence of a loan agreement and the transfer of the loan object to the debtor. The agreement was regarded as the legal basis for the creditor to demand the performance of the debtor's payment obligation. Conversely, the debtor challenged the validity and enforceability of the legal relationship underlying the collection claim. The objection concerned the requirements for a valid agreement, the legal authority of the parties, and the validity of the object or collateral stipulated in the agreement. Therefore, the dispute could not immediately be classified as a breach of contract before the validity of the underlying agreement had been examined.

A loan agreement may generally be proven through either a privately executed agreement

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or an authentic deed. Such documents are important for establishing the identities of the parties, the amount of the loan, the time of disbursement, the repayment period, and the collateral arrangements. Written evidence also assists judges in distinguishing between a debt that genuinely arose from a contractual relationship and a payment claim that lacks an adequate legal basis. Kurnaliah & Aminah (2024) state that a deed of acknowledgment of debt may clarify the existence and amount of the debtor's obligation, although its binding force continues to depend on the validity of the underlying legal relationship.

The dispute between the parties also concerned the use of a particular asset as security for repayment. From the creditor's perspective, collateral serves as a means of ensuring that the debt can be repaid if the debtor fails to perform its obligations. However, the existence of collateral does not automatically entitle the creditor to take possession of or transfer the asset. The validity of the collateral depends on the legal authority of the party providing it, the form of its legal encumbrance, and compliance with registration procedures where required for the relevant type of security. An agreement concluded by a party lacking legal authority over the asset may raise questions concerning its validity and provide grounds for determining whether the agreement can be upheld. The issue of authority over the collateral object also constitutes one of the principal matters examined in the research.

When a debtor fails to make payment as agreed, the creditor generally first issues a formal notice or demand for performance. If the notice does not result in repayment, the creditor may seek judicial settlement by alleging a breach of contract. Wulandari & Subadi (2024) demonstrate that creditors' claims against debtors are generally based on the failure to perform payment obligations stipulated in credit agreements. Nevertheless, the judge must first assess the existence of a valid agreement, the substance of the required performance, the maturity date, and evidence establishing that the debtor has defaulted.

In the case under examination, the plaintiff was principally the party that considered its rights to have been unfulfilled and sought legal protection through a judicial ruling. The plaintiff presented arguments concerning the existence of the loan relationship, the payment obligation, and the losses arising from the failure to perform the agreement. The defendant was the party required to account for the alleged obligation but retained the right to challenge the basis of the claim, the validity of the evidence, the amount of the debt, and the legality of the agreement. This allocation of positions is important because each party bears the burden of proving the assertions it submits.

The examination of a loan dispute cannot be confined to the question of whether payment

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has been made. The panel of judges must also determine whether the parties' conduct constitutes a breach of contract, an unlawful act, or a defect in the formation of the agreement. Tuerah (2024) explains that a loan dispute may develop into an unlawful-act claim when the conduct of one party violates the rights of another and causes damage. This distinction determines the legal basis of the claim, the elements that must be proven, and the form of remedy that may be granted by the court.

If the examination reveals that the agreement fails to satisfy the objective requirements for contractual validity, a claim for performance cannot immediately be granted on the basis of the principle that agreements are legally binding. An agreement that is null and void by operation of law is deemed never to have created a valid obligation. Nevertheless, the judge must still consider the return of money, goods, or collateral held by either party to prevent the invalidity of the agreement from resulting in unjust enrichment. In such circumstances, legal protection for the creditor does not necessarily take the form of enforcing the agreement, but may instead be provided through the restoration of the funds or rights previously transferred. Avianto & Latifiani (2025) emphasize that the invalidation of the legal basis for the creation of a security interest must be accompanied by proportionate legal protection for a creditor acting in good faith.

Accordingly, the legal positions of the parties in this case are determined not merely by their formal status as plaintiff and defendant, but also by the rights, obligations, authority, and legal acts undertaken during the formation and performance of the agreement. The creditor must prove the existence of a valid loan relationship and an enforceable right of claim that has become due. The debtor may challenge the claim by demonstrating that the obligation has been fulfilled or that the agreement underlying the claim contains a legal defect. The assessment of the case background therefore provides the basis for determining whether the dispute should be resolved through an order for performance, an award of damages, the cancellation of the agreement, or a declaration that the agreement is null and void by operation of law.

Judicial Legal Considerations in Declaring an Agreement Null and Void

Judicial legal considerations constitute an essential element in determining the validity of a loan agreement. It is insufficient for a judge merely to assess the transfer of funds, delayed payment, or the existence of contractual documents. The examination must also address the formation of the agreement, the legal authority of the parties, the clarity of its object, the purpose of the agreement, and its conformity with applicable laws and regulations. Such an assessment is necessary to determine whether the dispute arises from a breach of contract under a valid

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agreement or from a legal defect inherent in the agreement from its inception.

The first step that a judge must undertake is to examine whether the four requirements for a valid agreement under Article 1320 of the Indonesian Civil Code have been fulfilled. Consent and legal capacity relate to the parties entering into the agreement, whereas a specific subject matter and a lawful cause relate to the substance of the agreement. This distinction determines the legal consequences to be imposed. Failure to satisfy the subjective requirements renders an agreement voidable, whereas the violation of the objective requirements causes the agreement to be null and void and deemed never to have created a valid legal obligation (Lestari & Andriyani, 2023).

In a loan relationship, the examination of the contractual object encompasses the clarity of the loan amount, the form of performance, the repayment period, and the identity of the object used as collateral. The object must be ascertainable, at least by its type and quantity, so that the parties understand the performance they are required to fulfil. Ambiguity or uncertainty concerning the object prevents the rights and obligations of the parties from being determined with certainty. A study of land sale and purchase disputes demonstrates that an agreement may be declared null and void when its object cannot be ascertained, thereby failing to satisfy the requirement of a specific subject matter (Pertiwi & Cahyarini, 2023). This principle is equally relevant to loan agreements when the amount of debt, the basis of its calculation, or the collateral object cannot be clearly identified.

The judge must also examine whether the parties entering into the agreement possess the legal authority over the contractual object. A person cannot lawfully pledge, transfer, or encumber property belonging to another person without the consent or authorisation of the lawful owner. The presence of signatures and deeds does not, by itself, prove the existence of authority over the object. When the collateral belongs to a third party, the judge must assess evidence of ownership, the owner's consent, the legal relationship between the parties, and the form of security arrangement. The absence of authority may result in the legal act being unenforceable against the lawful owner and may affect the validity of the agreement.

The next consideration concerns the existence of a lawful cause. A judge must assess the legal purpose intended to be achieved through the agreement rather than merely examining the title or formal structure of the document. An agreement cannot be upheld when it is used to conceal a transfer of rights, circumvent mandatory legal provisions, or pursue an objective that is contrary to law, morality, or public order. Hariz & Haq (2024) emphasise that non-compliance with the objective requirements renders an agreement void from the outset because the law considers

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that the obligation was never legally created.

The judge must also evaluate the conformity between the formal structure of the agreement and the actual legal relationship between the parties. Documents entitled sale and purchase agreements, transfers of rights, acknowledgements of debt, or powers of attorney must be examined according to their substance and intended purpose. When a transaction is formally presented as a sale and purchase but is actually intended merely as security for the repayment of a debt, the judge may assess the relationship according to the actual circumstances and evidence. A substantive approach prevents the use of particular contractual forms to circumvent security enforcement procedures or to enable the creditor to directly acquire property belonging to the debtor.

The evidentiary value of the submitted documents also constitutes an important basis for judicial consideration. In principle, an authentic deed carries stronger evidentiary force than a privately executed deed. Nevertheless, the formal authority of a deed does not automatically validate contractual provisions that are contrary to law. The judge must continue to assess the conformity of the deed's contents with the facts established during the proceedings, the authority of its maker, the authenticity of the signatures, and compliance with the procedures for forming the agreement. Documentary evidence must be examined together with witness testimony, admissions made by the parties, payment records, proof of transfers, formal notices of default, and ownership documents relating to the collateral.

In determining the existence of a defect of consent, the judge must establish that mistake, duress, fraud, or abuse of circumstances genuinely influenced one party's consent. Not every economic imbalance or failure to make payment may be regarded as a defect of consent. There must be a causal connection between the conduct of one party and the other party's decision to enter into the agreement. When the defect relates solely to the consent of a party, the agreement is generally voidable. By contrast, a declaration that an agreement is null and void should be based on the violation of an objective requirement, such as an indeterminate object or an unlawful cause.

The distinction between invalidity and breach of contract must also be expressly reflected in the court's legal reasoning. A breach of contract presupposes the existence of a valid agreement, a specified obligation, the maturity of that obligation, and the debtor's failure to perform. When a judge declares an agreement null and void, a claim seeking to compel performance under that agreement generally loses its legal basis. Nevertheless, invalidity does not automatically justify either party in retaining money, goods, or benefits already received. The

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judge must determine an appropriate remedial mechanism so that the parties may, as far as possible, be restored to the position they occupied before the agreement was concluded.

The operative part of the judgment must therefore be consistent with the legal reasoning employed. When an agreement is declared null and void, the judge must clarify the status of payments already made, the return of the collateral, the cancellation or deletion of registered encumbrances, and liability for any resulting losses. A lack of clarity between the judicial reasoning and the operative provisions may create difficulties during the enforcement stage. A judgment that merely declares an agreement void without addressing its practical consequences may give rise to further disputes concerning the possession of property and the restitution of performance.

Accordingly, judicial considerations in declaring a loan agreement null and void must be developed through a sequential examination. The assessment should begin with the validity requirements of the agreement, followed by the parties' legal authority, the clarity of the contractual object, the lawfulness of its cause, the strength of the evidence, and the legal consequences arising from performance already rendered. A declaration that an agreement is null and void is appropriate only when a violation of the objective requirements has been established. The accuracy of such legal reasoning is necessary to maintain consistency among the applicable legal rules, the facts established during the proceedings, and the operative part of the judgment, while simultaneously providing balanced legal protection for both creditors and debtors.

Legal Consequences of the Annulment of a Loan Agreement

The annulment of a loan agreement alters the legal relationship between the creditor and the debtor. The resulting legal consequences depend on the legal grounds for the annulment. When an agreement is annulled due to the non-fulfilment of subjective requirements, it generally remains valid until the entitled party requests its annulment and the court grants such request. Conversely, when the objective requirements are not fulfilled, the agreement is deemed null and void and is therefore considered never to have created a valid legal obligation from the outset.

An agreement that is null and void can no longer serve as a legal basis for demanding the performance of obligations stipulated therein. The creditor cannot compel the debtor to pay interest, penalties, or additional obligations based on clauses contained in an invalid agreement. Likewise, the debtor cannot retain the benefits already received merely on the ground that the agreement has no binding force. The invalidity of the agreement must be followed by the settlement of any money, goods, documents, and benefits that have been transferred to prevent either party from obtaining an unjustified benefit.

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The primary consequence of annulment is the restoration of the parties to their positions prior to the conclusion of the agreement, or *restitutio in integrum*. A creditor who has transferred money is entitled to recover the principal amount received by the debtor, provided that the transfer can be proven. The debtor is entitled to recover any property, certificates, or documents previously delivered as collateral. Aini & Rahman (2025) emphasise that recovery under an agreement that is null and void may be achieved through restitution based on the principle prohibiting unjust enrichment, rather than through the enforcement of a contract that has lost its legal basis.

Restoring the parties to their original positions is not always straightforward. Difficulties may arise when the money has been spent, the object has been transferred to a third party, the value of the property has changed, or the collateral has been encumbered with certain rights. Under such circumstances, the court must determine the most proportionate form of remedy, either through direct restitution or the payment of an amount equivalent to the value of the benefits received. Such determination must take into account the parties' good faith, the actual losses incurred, and the possible involvement of third parties.

The annulment of an agreement also affects the validity of the security agreement. In general, a security agreement is accessory in nature because its existence depends on the principal agreement. When the loan agreement serving as the principal agreement is declared null and void, the security arrangement loses its legal basis. The creditor may no longer enforce the collateral on the basis of the invalid agreement, while the debtor or the owner of the property is entitled to request the return of the relevant documents and the discharge of any encumbrance over the object. Nevertheless, the consequences for the collateral must be determined by considering the type of security, the method by which it was established, and the position of third parties who may have lawfully acquired rights over it.

A declaration that an agreement is null and void must be distinguished from the termination of an agreement due to breach of contract. In a breach of contract, the agreement has fulfilled the legal validity requirements from the outset, but one party has failed to perform its obligations. Termination due to a breach does not eliminate the fact that a valid legal relationship previously existed. The injured party may still demand performance, damages, costs, and interest. Pratiwi et al. (2023) demonstrate that termination in a contractual relationship may be connected to an agreed resolutory condition when one party fails to perform its obligations. This situation must be distinguished from an agreement that is invalid from the outset because it fails to fulfil the objective requirements.

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This distinction affects the types of claims that may be brought before the court. In the case of a valid agreement that has been breached, the creditor may rely on breach of contract as the legal basis for claiming damages under Article 1243 of the Indonesian Civil Code. When an agreement is null and void, however, the claim can no longer be based on contractual obligations. Instead, it may be directed towards the restitution of performance, an unlawful act, or the recovery of benefits obtained without a lawful basis. The legal grounds of the claim must be formulated accurately to avoid contradictions between a request for the enforcement of the agreement and a declaration that the agreement was invalid from the outset.

The invalidity of an agreement does not automatically eliminate the possibility that an unlawful act has occurred. A party may still be held liable when it is proven that the party provided false information, used invalid documents, transferred an object without legal authority, or intentionally caused losses to another party. Such liability does not arise from the invalid contract but from conduct that violates the law and causes harm to another person. The court must therefore clearly distinguish between losses resulting from the non-performance of a contract and losses arising from unlawful conduct during the formation or implementation of the parties' legal relationship.

Good faith plays an important role in determining the extent of liability. A party who was unaware of a legal defect and reasonably performed its obligations should receive different protection from a party who deliberately entered into an agreement for an unlawful purpose. Gusriadi et al. (2023) explain that a party acting in good faith under an agreement that is subsequently declared invalid should still receive legal protection, particularly regarding the recovery of capital and the proportionate determination of damages. An assessment of good faith prevents invalidity from being used as a means of avoiding the obligation to return benefits already received.

Annulment may also have legal consequences for third parties. When collateral or property related to the agreement has been transferred to another party, the court must assess whether the third party acquired the relevant rights in good faith. Protection cannot automatically be granted to a third party because it depends on the legal status of the object, the authority of the transferring party, the applicable registration system, and the form of the transfer of rights. Legal certainty regarding the position of third parties is necessary to ensure that the annulment judgment does not generate further disputes.

The operative part of the judgment must formulate the consequences of annulment clearly and in an enforceable manner. A declaration that an agreement is null and void should be

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accompanied by an order to return money or property, surrender the collateral documents, discharge the encumbrance over the relevant object, and prohibit further enforcement based on the invalid agreement. When losses have occurred, the court must explain both the legal basis and the method used to calculate them. A clear operative judgment is necessary to prevent differing interpretations and to provide certainty regarding the parties' rights and obligations following the annulment of the agreement.

Accordingly, the annulment of a loan agreement not only removes the agreement's binding force but also creates an obligation to resolve the consequences that have already arisen. The parties must be restored to their original positions to the extent possible, while any benefits received must be returned proportionately. Security interests attached to the principal agreement must be discharged, whereas losses resulting from unlawful acts may still give rise to liability. The determination of these legal consequences must take into account the grounds of invalidity, the parties' good faith, the interests of third parties, and the principle of justice for both the creditor and the debtor.

Legal Protection for Creditors and Debtors

Legal protection in loan agreements is necessary to ensure a balance between the rights and obligations of creditors and debtors. Creditors have an interest in obtaining certainty regarding the repayment of money or goods that have been transferred, whereas debtors are entitled to protection to ensure that payment obligations, debt collection, and the enforcement of collateral are carried out in accordance with the agreement and applicable legal provisions. Such protection must be provided from the formation of the agreement, the performance of contractual obligations, and the settlement of default, through to the management of legal consequences when the agreement is declared null and void by operation of law.

Preventive protection for creditors begins with the preparation of a written agreement. The agreement should specify the identities and legal capacities of the parties, the amount of the loan, the time of disbursement, the repayment period, interest where agreed, payment mechanisms, the form of collateral, and the method of dispute resolution. Clarity regarding these elements reduces differences in interpretation and strengthens the evidentiary basis if the dispute is brought before a court. Creditors must also ensure that the debtor has legal capacity and that the party providing the collateral has lawful authority over the relevant object.

Creditor protection may be strengthened through collateral that is properly established in accordance with legal requirements. When the collateral consists of land rights, the security must

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be created through a Deed of Granting Mortgage and subsequently registered with the land office. This process results in the issuance of a Mortgage Certificate, which grants the creditor preferential status and executorial power. Soebagio & Ratna (2025) explain that creditor protection through a mortgage right cannot be based solely on the delivery of a land certificate but must be completed through proper establishment and registration in accordance with legal procedures.

Formal compliance in the creation of security rights also determines the enforceability of the creditor's rights. A Power of Attorney to Grant a Mortgage must be executed by an authorized party and satisfy the requirements prescribed by legislation. Failure to comply with these requirements may render the power of attorney null and void by operation of law, thereby preventing it from being used as the basis for executing a Deed of Granting Mortgage. This condition may weaken the creditor's legal position because the collateral does not create an enforceable proprietary security right. Therefore, verification of ownership, the authority of the collateral provider, and the legality of the documents constitutes an important component of legal protection for creditors (Paramita & Purwoatmodjo, 2022).

When a debtor fails to perform obligations under a valid agreement, the creditor is entitled to pursue both non-litigation and litigation remedies. Settlement efforts may begin with the issuance of a warning or formal notice of default, renegotiation, payment restructuring, or an agreement for payment by instalments. When such measures are unsuccessful, the creditor may file a breach-of-contract claim seeking performance of the obligation, termination of the agreement, or compensation for losses. A creditor holding legally established collateral may also pursue enforcement in accordance with applicable procedures but is not permitted to seize or transfer the collateral unilaterally outside the legally prescribed mechanism.

Legal protection for debtors is equally important because the economic positions of the parties to a loan agreement are not always balanced. Debtors are entitled to clear information regarding the amount of the debt, interest, penalties, the due date, and the consequences of non-performance. Clauses that lack transparency, impose unreasonable interest, or grant unilateral rights to the creditor may be challenged when they conflict with fairness, good faith, and applicable legal provisions. Debtors are also entitled to receive a copy of the agreement, evidence of the disbursement of funds, payment records, and documents confirming full repayment.

During the collection process, creditors are required to respect the rights and dignity of debtors. Debt collection must not involve violence, threats, disclosure of personal information, pressure directed at family members, or the seizure of property without a lawful basis. Creditors

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may only demand payment in accordance with the amount and obligations lawfully agreed upon. Debtors are entitled to raise objections when discrepancies exist in the calculation, when payments have not been recorded, or when collection measures exceed the terms of the agreement. Such protection is not intended to eliminate the debtor's obligations but to ensure that debt repayment is pursued through lawful and proportionate means.

Protection for debtors also applies to the enforcement of collateral. Enforcement may only be carried out when the debtor has been proven to be in default and the legal requirements for enforcing the collateral have been satisfied. The debtor must be informed of the amount due, the proposed sale, and the outcome of the enforcement process. When the proceeds from the sale of the collateral exceed the amount of the debt and legitimate expenses, the surplus must be returned to the debtor. The creditor cannot automatically acquire ownership of the collateral merely because the debtor has failed to make payment, since collateral is fundamentally intended as a means of securing repayment rather than transferring ownership from the outset.

When a loan agreement is declared null and void by operation of law, creditor protection can no longer be based on the enforcement of clauses contained in the invalid agreement. The creditor may still seek the return of funds actually received by the debtor, provided that the transfer can be proven. However, claims for interest, penalties, or enforcement of collateral that depend entirely on the invalid agreement must be reassessed. Conversely, the debtor is entitled to request the return of documents and the release of the collateral because an accessory agreement generally follows the validity of the principal agreement.

The invalidity of an agreement must not be used by the debtor as a justification for retaining money already received without any obligation to return it. Fair protection requires that the parties be restored, as closely as possible, to the position they occupied before the agreement was concluded. The creditor should recover the principal amount transferred, while the debtor should recover the collateral or rights over the object previously delivered. When either party has committed fraud, misused documents, or transferred an object without lawful authority, the injured party may still pursue a claim based on an unlawful act.

Creditor protection becomes more complex when the debtor is declared bankrupt. A creditor holding a mortgage right is normatively classified as a secured or separatist creditor. However, the exercise of such rights remains subject to specific provisions of bankruptcy law, including the stay period and the process of administering and liquidating the bankruptcy estate. Putro & Badriyah (2024) demonstrate that the application of bankruptcy provisions may restrict the immediate exercise of a separatist creditor's rights, meaning that the protection normatively

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provided through a mortgage right cannot always be fully realized in practice.

Court decisions play an important role in balancing the protection of both parties. Judges must assess the validity of the agreement, evidence of loan disbursement, payment records, authority over the collateral, and the good faith of the parties. The operative part of the judgment should not merely declare the existence of default or the invalidity of the agreement but must also clearly determine the amount to be returned, the status of the collateral, the termination of enforcement measures, and the form of compensation where unlawful conduct has been proven. Such clarity is necessary to ensure that the judgment can be effectively enforced and does not generate further disputes.

Accordingly, legal protection for creditors and debtors must be provided in a balanced manner. Creditors are entitled to repayment, adequate evidentiary protection, and the enforcement of collateral through lawful procedures. Debtors are entitled to transparent information, fair treatment, and protection against contractual clauses, collection practices, and enforcement measures that violate the law. When an agreement is declared null and void by operation of law, the parties must be protected through the restitution of performances and restoration of their prior positions rather than through the forced implementation of an agreement that has lost its binding legal force.

Critical Analysis of the Court Decision

A critical assessment of the court decision should focus on the consistency among the facts of the case, the applicable legal grounds, the judges' legal reasoning, and the operative part of the judgment. A decision declaring a loan agreement null and void by operation of law must clearly identify the objective requirement that was not fulfilled. It is insufficient for the court merely to state that the agreement contains a legal defect. The court must explain whether the defect concerns an indeterminate subject matter, an unlawful cause, or a conflict with statutory provisions, morality, or public order. Clarity regarding these grounds determines the accuracy of the legal classification and prevents confusion among the concepts of nullity by operation of law, voidability, breach of contract, and tort.

The application of Article 1320 of the Indonesian Civil Code must distinguish between subjective and objective requirements. Consent and legal capacity constitute subjective requirements, the non-fulfilment of which generally renders an agreement voidable. Conversely, a specific subject matter and a lawful cause constitute objective requirements, the violation of which renders an agreement null and void by operation of law. This distinction is important

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because the nature of the judgment and its legal consequences differ. A judgment concerning a voidable agreement is constitutive because it terminates a legal relationship that previously remained valid, whereas a declaration of nullity by operation of law is essentially declaratory because it confirms that the agreement never created a valid legal obligation from the outset (Wulandari & Subadi, 2024).

In assessing a loan relationship, the court must also distinguish between the validity of the agreement and the performance of contractual obligations. A debtor's inability or delay in repaying a debt does not automatically render the agreement null and void by operation of law. Such circumstances generally constitute a breach of contract when the agreement has fulfilled all validity requirements. Conversely, when an agreement has an unclear subject matter or an objective prohibited by law from the outset, the issue no longer concerns the performance of contractual obligations but rather the absence of a valid contractual basis. The accuracy of distinguishing between these two circumstances significantly determines the form of legal protection available to the parties.

The court's consideration of the parties' consent must also be examined carefully. When an objection to an agreement is based on fraud, coercion, mistake, or abuse of circumstances, the court must determine whether such circumstances genuinely affected a party's freedom to provide consent. Fraud cannot be established merely by demonstrating the existence of loss or the failure to fulfil a promise. It requires a series of deceptive acts or false representations that induced the other party to enter into the agreement. The study by Hatimah and Wagian demonstrates that fraud in the formation of an agreement must be established through a causal relationship between the misleading conduct and the consent given by the injured party (Hatimah & Wagian, 2025). Where the defect concerns the party's intention, the use of the term "null and void by operation of law" is less appropriate because the legal consequence is more accurately classified as voidability.

The parties' authority over the subject matter of the agreement and the collateral must also be examined substantively. A party who provides an asset as collateral must possess a valid right or lawful authority to encumber it. Nevertheless, the absence of authority over the collateral does not always automatically invalidate the entire loan relationship. The court must distinguish the validity of the transfer of funds as the principal agreement from the validity of the collateral arrangement as an accessory agreement. The principal agreement may remain valid even when the collateral arrangement does not satisfy the applicable requirements, unless the defect concerning the collateral is inseparable from the primary purpose of the agreement. Such

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separation is necessary to prevent the legal consequences from being applied too broadly and from prejudicing a party acting in good faith.

The evidentiary value of the documents submitted by the parties must also be assessed from both formal and substantive perspectives. An authentic deed has evidentiary force concerning the matters stated therein, but it does not automatically render every contractual provision legally valid. The deed may still be challenged when it was executed without the consent of an interested party, contains false identity information, or records an act that is contrary to law. Research on notarial liability indicates that a deed prepared without satisfying formal requirements or without the consent of one of the parties may be declared invalid and may give rise to liability for the resulting losses. Therefore, the court should not rely solely on the authentic form of the document but must also assess the substantive truth and the process through which the document was created.

The analysis of the decision must also consider the principle of good faith. A party who provides a loan based on documents that appear legally valid and who is unaware of defects affecting the collateral has an interest worthy of legal protection. Conversely, a party who knows that the collateral does not belong to them or who deliberately uses a particular contractual arrangement to evade legal prohibitions cannot receive the same protection. Protection for a creditor acting in good faith remains necessary even when the legal basis of the collateral arrangement is subsequently annulled by the court. Such protection may take the form of repayment of the principal amount or another proportionate remedy rather than enforcement of collateral that has lost its legal basis (Avianto & Latifiani, 2025).

A decision declaring an agreement null and void by operation of law must also explain the legal consequences for obligations that have already been performed. A declaration of nullity should not end merely with the removal of the agreement's binding force. The court must determine whether the money received must be returned, how interest and penalties are to be treated, who is entitled to possess the collateral, and whether any registration or encumbrance over the asset must be removed. Without such determinations, the decision only provides normative certainty and fails to resolve the concrete dispute between the parties.

Restoration to the original position must be implemented by taking into account proportionality and the prohibition against unjust enrichment. A debtor should not be released from the obligation to return money actually received merely because the agreement has been declared void. At the same time, the creditor cannot retain the collateral, demand interest, or impose penalties based on invalid contractual provisions. A proportionate remedy should enable

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the creditor to recover the value that was transferred while restoring the debtor's control over assets or documents that can no longer legally serve as collateral.

The consistency between the court's legal reasoning and the operative part of the judgment constitutes an important measure of the quality of the decision. When the legal reasoning states that the agreement was never valid, the operative part should not simultaneously order the performance of contractual obligations arising exclusively from that agreement. The obligation to return money should be formulated as a consequence of restitution rather than as the performance of a contractual obligation. Likewise, when the court only establishes a breach of contract, the phrase "null and void by operation of law" is inappropriate because the agreement was fundamentally valid and legally binding.

From the perspective of the objectives of law, the decision must integrate legal certainty, justice, and utility. Legal certainty is achieved when the grounds for nullity and the legal status of the parties' relationship are clearly explained. Justice is realised through the proportionate allocation of risks and restoration of rights. Utility is evident when the operative part of the decision can be enforced and is capable of ending the dispute without creating new legal problems. A decision that emphasises formal validity without considering restitution may prejudice one of the parties, whereas a decision that pursues case-specific fairness without a clear normative basis may undermine legal consistency.

Critically, a decision in a loan dispute involving an agreement declared null and void by operation of law should demonstrate three stages of analysis. First, the court must identify the actual facts and legal relationship, including the flow of funds, the purpose of the transaction, and the legal status of the collateral. Second, the court must assess those facts against the requirements for a valid agreement and distinguish subjective defects from objective defects. Third, the court must determine a remedy consistent with the legal status of the agreement and the parties' good faith. Without these stages, a declaration of nullity risks becoming merely a normative conclusion that does not fully address the interests of either the creditor or the debtor.

Accordingly, the accuracy of a court decision should not be assessed solely by the court's willingness to declare an agreement null and void by operation of law. It must also be evaluated based on the court's ability to explain the grounds for nullity and resolve all resulting legal consequences. An ideal decision must consistently apply Article 1320 of the Indonesian Civil Code, distinguish nullity from breach of contract, assess the parties' authority and good faith, and clearly formulate the restitution of performed obligations. Such an approach provides balanced legal protection, prevents unjust enrichment, and strengthens legal certainty in the practice of loan

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agreements.

CONCLUSION AND RECOMMENDATIONS

Based on the analysis, a loan agreement constitutes a source of obligation that gives rise to rights and duties between the creditor and the debtor. Its validity is determined by the fulfillment of the legal requirements for an agreement as stipulated in Article 1320 of the Indonesian Civil Code. An agreement that fails to satisfy the subjective requirements may, in principle, be annulled, whereas a violation of the objective requirements, namely a specific subject matter and a lawful cause, renders the agreement null and void by operation of law. Under such circumstances, the agreement is deemed never to have created a valid legal relationship and therefore cannot serve as a basis for demanding the performance of obligations, interest, penalties, or the enforcement of collateral. Nevertheless, the nullification of the agreement does not eliminate the obligation to return any money, property, or benefits that have been received. Legal protection for creditors and debtors should be provided by restoring the parties, as far as possible, to the position they occupied before the agreement was concluded, while taking into account good faith, the legal authority of the parties, the validity of the collateral, and the interests of third parties. Judicial considerations must therefore clearly distinguish among agreements that are null and void, voidable agreements, breaches of contract, and unlawful acts to maintain consistency between the legal grounds and the operative part of the judgment.

The parties are advised to conclude loan agreements in writing and clearly specify their identities, the amount of the loan, the repayment period, interest, payment methods, collateral, and dispute resolution mechanisms. Creditors should verify the debtor's legal capacity, the authority of the party providing the collateral, and the legality of the relevant object before the agreement is signed. Debtors should understand all contractual clauses and ensure that the obligations imposed do not conflict with the law or cause unreasonable prejudice. Notaries and legal practitioners should conduct both formal and substantive examinations of agreements and collateral documents. In resolving disputes, judges are advised to formulate the grounds for nullity and their legal consequences in detail, including the restitution of performance, the release of collateral, and the determination of damages. Such clarity is necessary to ensure that judgments not only provide normative legal certainty but can also be implemented fairly and effectively.

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