

SECOND DIVISION

[G.R. No. 119466, November 25, 1999]

**SALVADOR ADORABLE AND LIGAYA ADORABLE, PETITIONERS,
VS. COURT OF APPEALS, HON. JOSE O. RAMOS, FRANCISCO
BARENG AND SATURNINO BARENG, RESPONDENTS.**

DECISION

MENDOZA, J.:

This is a petition for review under Rule 45 of the decision^[1] of the Court of Appeals, dated January 6, 1995, sustaining the dismissal by Branch 24 of the Regional Trial Court, Echague, Isabela, of the complaint filed by petitioners, spouses Salvador and Ligaya Adorable, for lack of cause of action.

The facts are as follows:

Private respondent Saturnino Bareng was the registered owner of two parcels of land, one identified as Lot No. 661-D-5-A, with an area of 20,000 sq. m., covered by TCT No. T-162837, and the other known as Lot No. 661-E, with an area of 4.0628 hectares, covered by TCT No. T-60814, both of which are in San Fabian, Echague, Isabela. Petitioners were lessees of a 200 sq.m. portion of Lot No. 661-D-5-A.

On April 29, 1985, Saturnino Bareng and his son, private respondent Francisco Bareng, obtained a loan from petitioners amounting to twenty six thousand pesos (P26,000), in consideration of which they promised to transfer the possession and enjoyment of the fruits of Lot No. 661-E.

On August 3, 1986, Saturnino sold to his son Francisco 18,500 sq.m. of Lot No. 661-D-5-A. The conveyance was annotated on the back of TCT No. T-162873. In turn, Francisco sold on August 27, 1986 to private respondent Jose Ramos 3,000 sq.m. of the lot. The portion of land being rented to petitioners was included in the portion sold to Jose Ramos. The deeds of sale evidencing the conveyances were not registered in the office of the register of deeds.

As the Barengs failed to pay their loan, petitioners complained to Police Captain Rodolfo Saet of the Integrated National Police (INP) of Echague through whose mediation a Compromise Agreement was executed between Francisco Bareng and the Adorables whereby the former acknowledged his indebtedness of P56,385.00 which he promised to pay on or before July 15, 1987. When the maturity date arrived, however, Francisco Bareng failed to pay. A demand letter was sent to Francisco Bareng, but he refused to pay.

Petitioners, learning of the sale made by Francisco Bareng to Jose Ramos, then filed a complaint with the Regional Trial Court, Branch 24, Echague, Isabela for the annulment or rescission of the sale on the ground that the sale was fraudulently

prepared and executed.

During trial, petitioners presented as witness Jose Ramos. After his testimony, the next hearing was set on August 4 and 5, 1990. On said hearing dates, however, petitioners were absent. The trial court therefore ordered the presentation of evidence for petitioners terminated and allowed private respondents to present their evidence *ex parte*. On February 15, 1991, the trial court rendered judgment dismissing the complaint for lack of cause of action, declaring the contract of sale between Francisco Bareng and Jose Ramos valid and ordering Francisco Bareng to pay the amount he owed petitioners.

On appeal, the Court of Appeals affirmed the decision of the Regional Trial Court, with modification as to the amount of Francisco Bareng's debt to petitioners.

Hence, this petition for review, raising the following issues: (1) whether the Court of Appeals erred in dismissing the complaint for lack of cause of action; (2) whether petitioners enjoyed legal preference to purchase the lots they lease; and (3) whether the Court of Appeals erred in sustaining the lower court's order terminating petitioners' presentation of evidence and allowing private respondents to present their evidence *ex parte*.

In sustaining the decision of the trial court dismissing the complaint for lack of cause of action, the Court of Appeals premised its decision on Rule 3, §2 of the former Rules of Court which provided:

Parties in interest. — Every action must be prosecuted and defended in the name of the real party in interest. All persons having an interest in the subject of the action and in obtaining the relief demanded shall be joined as plaintiffs. All persons who claim an interest in the controversy or who are necessary to a complete determination or settlement of the questions involved therein shall be joined as defendants.

A real party in interest is one who would be benefited or injured by the judgment, or who is entitled to the avails of the suit. "Interest," within the meaning of this rule, should be material, directly in issue and to be affected by the decree, as distinguished from a mere incidental interest or in the question involved.^[2] Otherwise put, an action shall be prosecuted in the name of the party who, by the substantive law, has the right sought to be enforced.^[3]

Petitioners anchor their interest on their right as creditors of Francisco Bareng, as well as on their claim of preference over the sale of the contested lot.^[4] They contend that the sale between Francisco Bareng and Jose Ramos prejudiced their interests over the property as creditors of Francisco Bareng. Moreover, they claim that, under Commonwealth Act No. 539, they have a preferential right, as tenants or lessees, to purchase the land in question.

The petition has no merit.

First. We hold that, as creditors, petitioners do not have such material interest as to allow them to sue for rescission of the contract of sale. At the outset, petitioners' right against private respondents is only a personal right to receive payment for the