

FIRST DIVISION

[G.R. NO. 161298, January 31, 2006]

**SPOUSES ANTHONY AND PERCITA OCO, PETITIONERS, VS.
VICTOR LIMBARING, RESPONDENT.**

D E C I S I O N

PANGANIBAN, CJ.:

Basic in procedural law is the rule that every action must be prosecuted or defended in the name of the real party in interest. In the present case, the respondent, who was not a party to the contracts being sued upon, was not able to prove material interest in the litigation. For his failure to do so, the trial court cannot be faulted for dismissing the action to rescind the contracts. His status as trustor remained a bare allegation, as he had failed to rebut the legal presumption: that there is absence of a trust when the purchase price in a deed of sale is paid by a parent in favor of a child. Here, the prima facie presumption is "that there is a gift in favor of the child." Any allegation to the contrary must be proven by clear and satisfactory evidence, a burden that was not discharged by the plaintiff.

The Case

Before us is a Petition for Review^[1] under Rule 45 of the Rules of Court, assailing the August 26, 2003 Decision^[2] and the November 25, 2003 Resolution^[3] of the Court of Appeals (CA) in CA-GR CV No. 69386. The challenged Decision disposed as follows:

"WHEREFORE, the order dated October 2, 2000 of the Regional Trial Court, Branch 15, Ozami[s] City in Civil Case No. OZC 99-14 is hereby **REVERSED**. The agreement entered upon by plaintiff-appellant and defendant-appellee Percita L. Oco is hereby **RESCINDED**. After returning the agreed purchase amount of P60,000.00 to defendants-appellees, the Register of Deeds of Ozami[s] City shall issue the new Transfer Certificates of Title in the name of plaintiff-appellant thereby canceling the TCT Nos. T-22073 and T-22072."^[4]

The Facts

The pertinent facts are not disputed. Sometime in 1996, Sabas Limbaring subdivided his Lot 2325-D, covered by Transfer Certificate of Title (TCT) No. 5268, into two lots denominated as Lot Nos. 2325-D-1 and 2325-D-2.^[5] He then executed in favor of Jennifer Limbaring a Deed of Sale for Lot 2325-D-2 for P60,000; and, in favor of Sarah Jane Limbaring, another Deed for Lot 2325-D-1 for P14,440. Accordingly, TCT No. 5268 was cancelled and TCT Nos. T-21921 and T-21920 were issued in the names of Jennifer and Sarah Jane, respectively.^[6]

Sensing some irregularities in the transaction, Percita Oco, the daughter of Sabas Limbaring, left Puerto Princesa City and went to Ozamis City.^[7] She then filed a case of perjury and falsification of documents against respondent, her uncle who was the father of Jennifer and Sarah Jane. During the pre-litigation conference called by City Prosecutor Luzminda Uy on July 1, 1996, the parties agreed that the two parcels of land should be reconveyed to Percita, who was to pay respondent all the expenses that had been and would be incurred to transfer the titles to her name.^[8]

Respondent demanded P30,000 for the estimated expenses for documentation, capital gains, and documentary stamp taxes; registration fees for the Register of Deeds; and other incidental expenses for clearances from the Department of Agrarian Reform (DAR).^[9] Percita succeeded in lowering the amount to P25,000, for which she executed an undertaking worded as follows:

"I, Percita Oco, of legal age, and residing at Puerto Princesa, do hereby undertake to give the full amount of Twenty Five Thousand (P25,000.00) Pesos to my uncle Victor Limbaring after document No. 230, series of 1996; Transfer Certificate of Title No. T-21920 and Transfer Certificate of Title No. T-21921 shall have been cancelled and revoked.

"Ozamis City, Philippines, July 1, 1996."^[10]

Pursuant to their agreement, respondent facilitated the transfer of the titles to her from the names of his daughters. After the transfer had been effected on July 12, 1996, Percita left for Puerto Princesa on July 17, 1996, without paying the P25,000. Several demands were made, but she refused to pay.

On April 6, 1999, respondent filed against Spouses Anthony and Percita Oco a Complaint for the rescission of the sales contracts, with recovery of possession and ownership of the two parcels of land.^[11] Among others, he claimed 1) that he was the actual buyer of the lots, but the vendees whose names appeared on the Deeds were his daughters; 2) that he initially refused to reconvey the properties because he had paid for them with his hard-earned money, which was partly used by Sabas Limbaring for medical expenses; 3) that Percita had prepared the two Deeds of Sale, which his daughters signed despite receiving no consideration as stated in the Deeds; 4) that because she refused to pay the P25,000, the Limbaring clan held a meeting on October 26, 1996, during which it was agreed that P1,000 per month would be given to respondent from the rentals of Sabas Limbaring's house; and 5) that the agreement was not implemented, because Percita had failed to cooperate.^[12]

On May 27, 1999, Spouses Oco filed a Motion to Dismiss on the ground that the plaintiff (herein respondent) was not the real party in interest.^[13] In his Opposition to the Motion to Dismiss, respondent contended that he was a trustor, whose property was being held in trust by his daughters.^[14] He also averred that, on the assumption that he was not the real party in interest, he was entitled to an amendment of the pleadings.^[15]

On August 30, 1999, the RTC issued an Order denying the Motion to Dismiss. It ruled that evidence was required to resolve the parties' respective allegations.^[16]

On October 4, 1999, Spouses Oco filed an Answer with Counterclaim, alleging in the main: 1) that respondent had tried to secure a DAR clearance and to have a certificate of title issued in his name, but failed because Republic Act (RA) 6657 prohibited the acquisition of more than five hectares of agricultural land; 2) that through deceit and manipulation, respondent was able to convince Sabas Limbaring to execute the two Deeds of Sale, notwithstanding the lack of any consideration; 3) that Sabas informed Percita that the agricultural land had never been sold; 4) that she refused to pay the P25,000, because the suspensive conditions stated in the Promissory Note had not been complied with; 5) that she paid for all the expenses incurred in their transaction; 6) that for her alleged failure to pay the P25,000 and for "other deceits," respondent filed a criminal Complaint docketed as Criminal Case No. 2985; 7) that respondent was guilty of forum shopping for filing that case despite the institution of the civil aspect in the criminal case; 8) that respondent was not the real party in interest and had no legal standing to sue; 9) that the lots, which were acquired by Jennifer and Sarah Jane without paying any consideration, should be returned to Percita without any consideration; and 10) that the Deeds of Sale reconveying the lots acknowledged receipt of consideration.^[17]

Respondent testified on his behalf. He then formally offered his exhibits.^[18] After filing their Comments to Plaintiff's Formal Offer of Exhibits, Spouses Oco filed a Demurrer to Evidence, to which he filed his Opposition.^[19]

On October 2, 2000, the RTC granted the demurrer and dismissed the Complaint and Counterclaim,^[20] on the ground that respondent was not the real party in interest. The trial court also held that Jennifer and Sarah Jane had already acknowledged receipt of the consideration for the reconveyance of the lots. It added that the P25,000 was an independent obligation for the reimbursement of the expenses incurred for the transfer of the titles.^[21]

Ruling of the Court of Appeals

The CA held that a trust relationship was created when respondent purchased the lots in favor of his daughters.^[22] Thus, he was a real party in interest.

The appellate court also ruled that the P25,000 was part of the consideration for the reconveyance of the two parcels of land.^[23] The CA held that, since Percita had admitted her failure to pay the amount, respondent had the right to rescind the contracts of reconveyance.^[24]

The assailed November 25, 2003 CA Resolution denied reconsideration. Hence, this Petition.^[25]

The Issues

Petitioners state the issues in this wise:

"I. The Honorable Court of Appeals gravely erred in finding respondent the trustor of the subject properties and in declaring respondent the real party in interest for the rescission of the two deeds of absolute sale

executed by Jennifer Limbaring and Sarah Jane Limbaring in favor of the petitioners.

"II. The Honorable Court of Appeals gravely erred in declaring that respondent has fully complied [with] his obligation in the undertaking executed by petitioner after the ownership of the subject properties were transferred to petitioners.

"III. The Honorable Court of Appeals gravely erred and gravely abused [its] discretion in ordering the rescission of the Deed of Absolute Sale executed by Jennifer Limbaring and Sarah Jane Limbaring in favor of the petitioners involving the subject properties.

"IV. The Honorable Court of Appeals gravely abused [its] discretion when it ignored the pending case before the Fourth Division of the Honorable Court of Appeals with the same transaction, essential facts and circumstances in this case."^[26]

The threshold issue is whether respondent, who was the plaintiff in the trial court, was a real party in interest in the suit to rescind the Deeds of Reconveyance.

The Court's Ruling

The Petition is meritorious.

Main Issue: **Real Party in Interest**

Petitioners contend that respondent was not a trustor, and therefore not the real party in interest and had no legal right to institute the suit.^[27] The real parties in interest were Jennifer and Sarah Jane, to whom the subject properties had been given as gifts.^[28]

The controversy centers on Rule 3 of the Rules of Court, specifically an elementary rule in remedial law, which is quoted as follows:

"Sec. 2. Parties in interest. – A real party in interest is the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit. Unless otherwise authorized by law or these Rules, every action must be prosecuted or defended in the name of the real party in interest."

As applied to the present case, this provision has two requirements: 1) to institute an action, the plaintiff must be the real party in interest; and 2) the action must be prosecuted in the name of the real party in interest.^[29] Necessarily, the purposes of this provision are 1) to prevent the prosecution of actions by persons without any right, title or interest in the case; 2) to require that the actual party entitled to legal relief be the one to prosecute the action; 3) to avoid a multiplicity of suits; and 4) to discourage litigation and keep it within certain bounds, pursuant to sound public policy.^[30]

Interest within the meaning of the Rules means material interest or an interest in

issue to be affected by the decree or judgment of the case, as distinguished from mere curiosity about the question involved.^[31] One having no material interest to protect cannot invoke the jurisdiction of the court as the plaintiff in an action.^[32] When the plaintiff is not the real party in interest, the case is dismissible on the ground of lack of cause of action.^[33]

Action on Contracts

The parties to a contract are the real parties in interest in an action upon it, as consistently held by the Court.^[34] Only the contracting parties are bound by the stipulations in the contract;^[35] they are the ones who would benefit from and could violate it.^[36] Thus, one who is not a party to a contract, and for whose benefit it was not expressly made, cannot maintain an action on it. One cannot do so, even if the contract performed by the contracting parties would incidentally inure to one's benefit.^[37]

As an exception, parties who have not taken part in a contract may show that they have a real interest affected by its performance or annulment.^[38] In other words, those who are not principally or subsidiarily obligated in a contract, in which they had no intervention, may show their detriment that could result from it.^[39] Contracts pour autrui are covered by this exception.^[40] In this latter instance, the law requires that the "contracting parties must have clearly and deliberately conferred a favor upon a third person." A "mere incidental benefit is not enough."

Action on the Contracts Presently Involved

Respondent's Complaint, entitled "Rescission of Contract & Recovery of Possession & Ownership of Two Parcels of Land," is clearly an action on a contract. The agreements sought to be rescinded^[41] clearly show that the parties to the Deeds of Absolute Sale were Jennifer and Sarah Jane Limbaring^[42] as vendors and Percita Oco as vendee. Clearly then, the action upon the contracts may -- as a rule -- be instituted only by Jennifer and Sarah Jane against Percita.

Respondent is not a real party in interest. He was not a party to the contracts and has not demonstrated any material interest in their fulfillment. Evidently, the allegations in the Complaint do not show that the properties would be conveyed to him, even if Percita were to be proven to have committed a breach of the subject agreements.

Trust Relationship

To show material interest, respondent argues that a trust was created when he purchased the properties from Sabas Limbaring in favor of his daughters. As trustor, he allegedly stands to be benefited or injured by any decision in the case.^[43]

Trust is the legal relationship between one person who has equitable ownership of a property and another who owns the legal title to the property.^[44] The trustor is the one who establishes the trust; the beneficiary, the person for whose benefit the trust was created; and the trustee, the one in whom, by conferment of a legal title,