

Fifth Circuit Confirms Third-Party Liens Survive Chapter 11 Discharge

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The Fifth Circuit has confirmed the old adage that liens “ride through” bankruptcy regardless of a discharge. Reversing a Texas bankruptcy court, the Circuit Court has held that a statutory privilege (a lien) against property of a non-debtor cannot be extinguished by a Chapter 11 discharge or by a plan provision stating that the underlying claim is “settled” or “satisfied” by the plan’s payments. In *In re Dynamic Offshore Res. NS, L.L.C.*, 2025 WL 1651901 (5th Cir. June 11, 2025), the panel reversed the Bankruptcy Court for the Southern District of Texas and held that an oil driller’s “statutory privilege” under Louisiana law to a lien against an oil well site’s owner or lessee was not extinguished by the Chapter 11 discharge or the confirmed plan’s provisions that creditors’ payments are in “settlement” and “satisfaction” of their claims.

The debtor, Fieldwood, an oil well operator, had failed to pay a driller \$13 million for its services prior to the bankruptcy case. The driller sought to enforce its statutory privilege against the site lessee under Louisiana law, but the lessee argued that the confirmed plan, which discharged the debt and indicated confirmation constituted a “satisfaction” of the claim, meant the lien could no longer be enforced.

Of course, the “black letter” rule that a lien “rides through” bankruptcy regardless of discharge would seem to apply. The twist was that under the “Louisiana Oil Well Lien Act” (LOWLA), the “privilege [was] extinguished ... [u]pon extinction of the obligation it secures.” So, the debtors were able to argue that, if the discharge or confirmed plan rendered the debt “extinct,” then the lien must be extinguished as well.

They managed to get the bankruptcy court’s attention. After first ruling that the lien was not extinguished, Judge Isgur reversed himself and found that the obligation was rendered “extinct” by the discharge *and* plan provisions stating that creditor payments were in “settlement” and “satisfaction” of claims. A settlement and satisfaction, Judge Isgur reasoned, meant that the obligation ceased to exist, meaning the privilege must be extinguished.

On appeal, the court noted the well-known rule that a discharge does not extinguish a claim but simply operates as a permanent injunction against its collection. So, the discharge couldn’t be grounds for extinguishing the lien under Louisiana law. The panel then noted that plan’s “settlement” and “satisfaction” language applied only to the relationship between the creditor and the debtor and cannot release a third-party from the underlying lien rights. Taking its cues from *Purdue*, the panel stated that not only were non-consensual release provisions generally prohibited by the code, but that no third-party release could arise from general language such as “settlement” or “satisfaction,” because such releases must be stated *specifically* in the language of the plan.