

FUNDAMENTALS · LESSON 1 · 6 MIN READ

What Is a Lien?

A plain-English definition of a lien, the legal theory behind it, and why creditors care.

OVERVIEW

A lien is a legal claim against an asset that secures payment of an underlying obligation.

Liens convert an unsecured promise to pay into a secured interest — they elevate the creditor above ordinary trade debt.

Liens can be created by statute (mechanic's, tax, judgment), by contract (mortgage, UCC-1), or by operation of law.

KEY CONCEPTS

- Secured vs. unsecured debt
- Perfection — the act of making a lien enforceable against third parties
- Priority — who gets paid first when multiple claimants exist
- Foreclosure — the judicial or non-judicial sale of the encumbered asset

COMMON MISTAKES

- Treating a 'demand letter' as a lien — it is not.
- Assuming a contract clause alone creates a lien without statutory perfection.
- Forgetting that liens attach to property, not to people.

PRACTICAL EXAMPLES

TRADE CREDITOR WITH NO LIEN

A supplier ships \$80,000 of materials on net-30 terms. Without a UCC-1 or a statutory mechanic's lien, the supplier is just one more unsecured creditor if the buyer files bankruptcy.

SUBCONTRACTOR WITH A PROPERLY FILED LIEN

The same supplier, working on a commercial build, files a timely mechanic's lien. Now the claim attaches to the project itself and must be cleared before the owner can sell or refinance.