



This Bill Analysis reflects the contents of the bill as it was presented in committee.

# HOUSE BILL 372: Home-Based Business Fairness/HOA Revisions.

2025-2026 General Assembly

<b>Committee:</b>	Senate Judiciary. If favorable, re-refer to Rules and Operations of the Senate	<b>Date:</b>	June 16, 2026
<b>Introduced by:</b>	Reps. Johnson, Chesser, Rhyne, Schietzelt	<b>Prepared by:</b>	Samantha Yarborough* Committee Counsel
<b>Analysis of:</b>	Fourth Edition		

## OVERVIEW: House Bill 372 would:

- *Limit the authority of cities to regulate no-impact home-based businesses, allowing no-impact home-based businesses to operate on property used for residential purposes, but would not override private land use restrictions contained in deeds or by-laws or other documents applicable to a homeowners association.*
- *Make the following changes to laws governing owners' associations in condominiums and planned communities:*
  - *Limit associations' general power to:*
    - *Contract with managing agents.*
    - *Regulate parking on public streets.*
    - *Impose a fine for offering lessons to fewer than five people on the member's property.*
    - *Charge a fee for preparing documents related to title transfers.*
    - *Charge members for copies of association records.*
  - *Require associations to provide fair procedures for deciding an owner's proposal for architectural modification and to issue a decision within 90 days.*
  - *Modify procedures for imposing fines and enforcing liens for delinquencies.*
  - *Require associations to permit members to inspect and copy any contracts entered into by an owners' association.*
  - *Require associations to allow members to access records relating to association use of automatic license plate reader systems.*
  - *Require prelitigation mediation of certain disputes between owners' associations and their members unless mediation is waived by all parties to the dispute.*
  - *Require the Department of Justice to receive complaints relating to owners' association disputes and report annually to the House and Senate Commerce Committees and Fiscal Research Division on the issues underlying the complaints.*
  - *Regulate association use of automated license plate reader systems.*

## CURRENT LAW AND BILL ANALYSIS:

### Part I. Limitations on City Regulation of No-Impact Home-Based Businesses

Under G.S. 160D-702, a city may adopt zoning regulations that regulate and restrict the location and use of buildings, structures, and land. A city may also by ordinance (i) define, prohibit, regulate, or abate acts or conditions that are detrimental to the health, safety, or welfare of its citizens and (ii) regulate and license businesses and prohibit businesses that may be injurious to the public health, welfare, and safety. (G.S. 160A-174, G.S. 160A-194)

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**Section 1** of House Bill 372 would enact a new G.S. 160A-205.8 prohibiting cities from requiring no-impact home-based businesses to obtain approval to operate the business, to submit a petition to rezone the property for commercial use, or to install or equip fire sprinklers in a building subject to the North Carolina Residential Code. This prohibition would not apply to reasonable regulations narrowly tailored to do any of the following things:

- Ensure the protection of public health and safety.
- Ensure that the business activity is compatible with residential use or the property and surrounding residential properties.
- Ensure that the business is secondary to the use of the property as a residential dwelling and complies with State and federal law.
- Prohibit or limit use of the business for the purpose of selling illegal drugs, liquor, operating a sober living home, pornography, obscenity, or nude or topless dancing or other adult-oriented business.

As used in this section, "no-impact home-based business" would be defined as a business owned and operated by the owner or occupant of the residential dwelling for which the number of on-site employees and clients persons does not exceed the city's occupancy limit for the residential property, and whose business activities:

- Are limited to the sale of lawful goods and services.
- Do not generate on-street parking or a substantial increase in traffic through the residential area.
- Are not visible from the street.

## **Part II. Changes to Laws Governing Owners' Associations in Condominiums and Planned Communities**

### **General Powers of Owners' Associations**

Under G.S. 47C-3-102 (Condominium Act) and G.S. 47F-3-102 (Planned Community Act), unless the governing declaration expressly provides to the contrary, owners' associations are granted the power to:

- Hire and terminate managing agents.
- Regulate the use of common elements.
- Levy fines for violations of the declaration, bylaws, and rules and regulations of the association.
- Impose reasonable charges not exceeding \$200 for preparing statements of unpaid assessments, plus an additional fee not exceeding \$100 for requests made within 48 hours of closing.

These sections do not currently limit charges imposed by owners' associations for producing requested records for inspection or copying at a member's request.

**Sections 2.1 and 2.5** would amend these statutory sections to make the following changes:

- Associations would be prohibited from entering into a contract with a managing agent with a term of more than two years or with an automatic renewal provision requiring notice of nonrenewal more than 60 days before the contract anniversary date.
- Any management contract that is automatically renewed would be terminable by the association for any reason upon 90 days' notice.
- For management contracts entered into on or after January 1, 2026, managing agents could not be compensated based on the amount of fines collected by them on behalf of the association.
- Associations would be prohibited from regulating parking of a personal vehicle on a public street, public road, or public right of way for which the North Carolina Department of Transportation (NCDOT) or a local government has assumed responsibility for maintenance and repairs, unless

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such regulation is expressly authorized in the declaration or has been expressly delegated to the association by the NCDOT or local government.

- Associations would be prohibited from imposing fines for providing free or paid tutoring, educational lessons, academic lessons, or music lessons on the owner's property to no more than five people at any one time.
- Associations would be prohibited from imposing any charge on an owner or prospective purchaser in connection with transfer of title not expressly authorized by statute, unless authorized in the declaration and not otherwise prohibited by law. A violation of this prohibition would be an unfair and deceptive trade practice under G.S. 75-1.1.
- Associations would be permitted to charge \$200 for preparation of a lender's questionnaire or statement of unpaid assessments, and to charge an additional expedited fee of \$100 if the request is the item is to be furnished less than 10 days after receipt of the request.
- Associations would be permitted to impose a reasonable charge for providing copies of records requested by a member, not to exceed the actual cost of photocopying the records, including the cost of materials used in responding to the request and any required shipping.
- In exercising any authority granted under the declaration to approve or disapprove an owner's proposed property change, associations would be required to:
  - Provide a fair, reasonable, and expeditious procedure for making the decision.
  - Issue a written decision no later than 90 days after the proposal is submitted.
  - Include in any disapproval decision an explanation of the reasons for the disapproval and how the owner can request reconsideration by the executive board.

## **Association Fines**

Under G.S. 47C-3-107.1 and G.S. 47F-3-107.1, unless a specific procedure for imposing fines or suspending community privileges or services is provided for in the declaration, a hearing must be held before the executive board or a panel it has appointed to determine if an owner should be fined or have privileges or services suspended for violations of the declaration, bylaws, and rules and regulations of the association. The owner charged with the violation must be given notice of the charge, opportunity to be heard and present evidence, and notice of the decision. A fine of up to \$100 may be imposed for a violation, for each day more than five days after the decision that the violation occurs.

**Sections 2.2 and 2.6** would amend these statutory sections to require an owner to receive at least 10 days' written notice of a hearing to determine whether a fine should be imposed for an alleged violation, would require the notice to specify the action, if any, required to cure the alleged violation, and would require that the owner receive the names of persons whose testimony the association plans to offer and a copy of any documents, photographs, or other materials it plans to offer at the hearing. In addition, the total amount of all daily fines imposed for a continuing violation would be capped at \$2,500.

## **Association Liens**

Under G.S. 47C-3-116 and G.S. 47F-3-116, any assessment that is at least 30 days delinquent constitutes a lien on the member's property upon the filing of a claim of lien with the clerk's office in the county where the property is located. Once filed, the claim of lien secures all sums due at the time of filing as well as any sums becoming due thereafter. Unless the declaration provides otherwise, the claim of lien also secures all fees and other charges due and payable under the declaration, applicable law, or as the result of an arbitration, mediation, or judicial decision.

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An association must make reasonable efforts to ensure that its records have the current mailing address of the property owner. No less than 15 days before filing the lien, the association must mail a statement of the assessment amount due by first class mail to the physical address of the unit or lot and the owner's address of record with the association and, if different, to the address on the county tax records. If the owner is a corporation or limited liability company, the statement must also be sent by first class mail to the mailing address of the registered agent for the corporation or limited liability company.

An association may foreclose a claim of lien in the same manner as a mortgage or deed of trust on real estate under a power of sale, provided that the assessment has remained unpaid for at least 90 days. A claim of lien securing a debt consisting solely of unpaid fines, interest on unpaid fines, or attorneys' fees incurred solely associated with fines imposed by the association, may only be enforced by judicial foreclosure.

Associations are entitled to recover the reasonable attorneys' fees and costs incurred in connection with the collection of any sums due.

**Sections 2.3 and 2.7** would amend these statutory sections to make the following changes:

- The association would be required to make reasonable efforts to ensure it has the current email address and current telephone number of the owner.
- The association would be required to provide proper notice of delinquent assessments to the owner before filing a claim of lien. New requirements would include:
  - Sending a statement of the assessment due and a copy of any filed claim of lien and its certificate of service via email if the owner has designated an email address as provided for in the Nonprofit Corporation Act.
  - Attempting to notify the owner by telephone of the delinquent assessments and the delivery details of the statement of the assessment amount due, if the owner has provided a telephone number to be used by the association for communicating with the owner.
- If an association's lien secures a debt consisting solely of fines or related interest or attorneys' fees, these sections would remove the association's current authority to enforce the lien through judicial foreclosure. To enforce such a lien, the association would be required to:
  - File the claim of lien within 90 days after the date the fine was imposed and separately from any claim of lien securing other sums owed.
  - Commence a civil action seeking a judgment within one year after the filing of the claim of lien.
- An association would be permitted to use judicial foreclosure only to enforce a lien securing a debt other than unpaid fines and related interest and attorneys' fees.
- Require an association to file a civil action seeking a judgment to enforce a lien consisting of sums due for fines or fine-related charges.
- Provide that the court may, in the court's discretion, allow associations to recover the reasonable attorneys' fees and costs incurred in collecting any sums due.

## **Association Records**

Under G.S. 47C-3-118 and G.S. 47F-3-118, owners' associations must make all association records reasonably available for examination by an owner and the owner's authorized agent as required by the association bylaws and as required by the North Carolina Nonprofit Corporation Act (Chapter 55A of the General Statutes) if the association is a nonprofit corporation. Under Chapter 55A, a member is entitled to inspect and copy specified corporate records if the member gives the corporation written notice of the

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member's demand at least five business days before the date on which the member wishes to inspect and copy.

Associations can charge an expedited fee of up to \$100 for preparing a statement of unpaid assessments requested by an owner within 48 hours of closing.

**Sections 2.4 and 2.8** would:

- Require associations to make available for examination by a member or the member's agent any contract entered by the association upon written request provided at least five days before the date the member wishes to inspect and copy, as long as the request was made in good faith and for a proper purpose, described with reasonable particularity the purpose and the contract to be inspected. The association would have the burden of proving that a request was not made in good faith and for a proper purpose.
- Provide that associations can charge the additional expedited fee of up to \$100 for furnishing a statement of unpaid assessments that is requested to be furnished less than ten days after the association receives the request.
- Require an association to keep written records of any policy regarding the use of automatic license plate reader systems and make the records available for examination by any member or the member's authorized agent.

## **Part III. Prelitigation Mediation**

Under current law, a dispute between an owners' association and its members can be mediated before commencement of a civil action only if all parties agree to the mediation.

**Section 3** would require a dispute between an association and its members to be mediated before a civil action is commenced unless mediation is waived by all parties to the dispute. This requirement would not apply to disputes solely related to a member's failure to pay an assessment or fines or fees associated with levying or collecting an assessment.

## **Part IV. Department of Justice to Receive Complaints Involving Disputes between Associations and Their Members**

No State agency is currently required to receive and report on complaints involving disputes between owners' associations and their members.

**Section 4** would amend Article 1 (Attorney General) of Chapter 114 (Department of Justice) to require the Department of Justice to:

- Receive complaints concerning disputes between associations and their members and forward a copy of the complaint to the other parties to the dispute.
- Summarize information about the issues giving rise to disputes collected from the complaints in an annual report to the House Commerce and Economic Development Committee, the Senate Commerce and Insurance Committee, and the Fiscal Research Division, and publish the report on the Department's website.
- Provide information on its website to educate associations and their members about their rights and obligations under applicable laws, and to provide instructions for submitting complaints to the Department.

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## Part V. Association Use of Automatic License Plate Reader Systems

**Section 5** would prohibit an association from operating an automatic license plate reader system without first:

- Providing all lot or unit owners and a local law enforcement agency with notice of its intent to begin using the system.
- Providing a local law enforcement agency with ongoing access to the system.
- Adopting a written policy governing the system's use, addressing factors such as data retention, training of system operators, supervisory oversight of the system's use, auditing of the system at least annually, and annual or more frequent owner notifications of continued operation of system.

Data obtained from operation of the system could be used only to assist law enforcement agencies in connection with law enforcement other than the enforcement of traffic violations.

**EFFECTIVE DATE:** The provisions in Sections 2.1 and 2.5 of this act relating to managing agent compensation would become effective January 1, 2026, and would apply to contracts entered into on or after that date. Sections 2.3 and 2.7 of this act would become effective December 1, 2025, and apply to claims of lien filed and instruments presented for registration on or after that date. Section 3 of this act would become effective October 1, 2026, and apply to actions filed on or after that date. Section 4 of this act would become effective July 1, 2025. Section 5 of this act would become effective October 1, 2025. The remainder of this act would be effective when it becomes law.

*\*Ike McRee, attorney with the Legislative Analysis Division, and Bill Patterson, former attorney with the Legislative Analysis Division, substantially contributed to this summary.*