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North Carolina's Litigation Funding Ban:

What It Means for Affordable Housing's Insurance Crisis

In June 2026, North Carolina enacted a first-in-the-nation ban on third-party litigation funding. This legal reform has potential ripple effects for affordable housing owners coping with soaring insurance costs. The new law prohibits outside investors, like hedge funds, from financing lawsuits in exchange for a cut of the payout. While intended to curb social inflation (the trend of rising claims and legal costs), it comes amid an insurance crisis for multifamily affordable housing. This explainer unpacks the law and why many see it as a hopeful sign for affordable housing developers and operators.

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Third-Party Litigation Funding and North Carolina's Ban

Litigation funding, also called litigation finance or TPLF, is the practice where an outside party pays a plaintiff's legal expenses in exchange for part of any judgment or settlement. This multibillion-dollar industry has grown rapidly in recent years. In 2025, more than 39 commercial funders in the U.S. made 346 deals worth ~$2.8 billion, with average deals of $8 million. Proponents of litigation funding say it helps people pursue valid claims against defendants by easing upfront costs. Critics, however, argue this practice encourages more lawsuits, prolongs litigation, and artificially inflates payouts. Insurers and business groups point out that funder-backed cases often last longer and result in higher settlement demands or verdicts.

North Carolina's new law (House Bill 315), signed into law on June 22, 2026, by Governor Josh Stein, targets these concerns by banning most third-party funding arrangements in civil cases in the state, making it unlawful to "engage in litigation investment" in North Carolina.

N.C.'s Landmark Law

HB 315 is the First U.S. state law outlawing third-party litigation financing, with strong bipartisan support.

Litigation & Insurance Costs

60% of liability claim growth is linked to litigation funding and legal system changes.

Housing Premium Spike

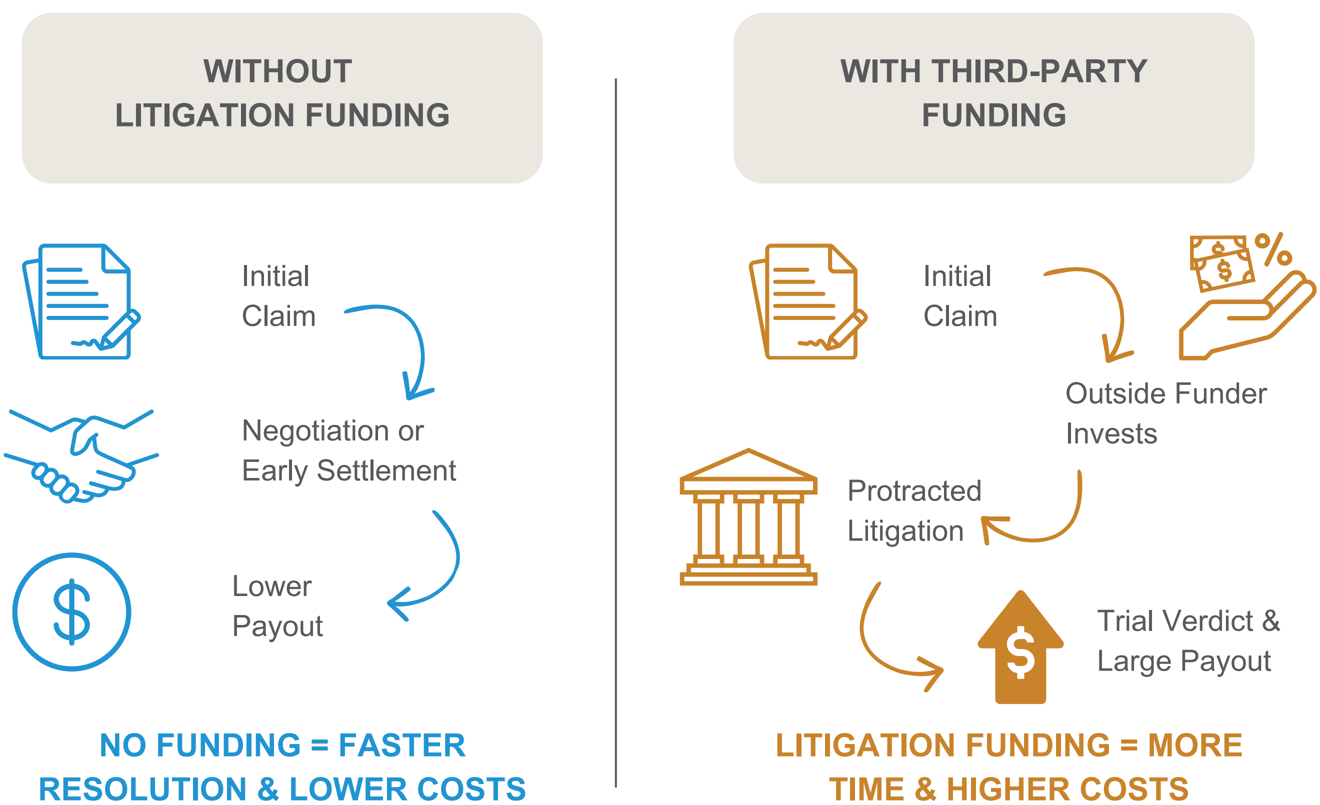
Affordable housing insurance costs increased **+144% per unit** (2016-2023), making insurance the fastest growing expense category.

Violators face injunctions and fines up to $50,000 per deal, and contracts violating the ban are void. The statute carves out common exceptions such as insurers defending policyholders (insurance isn't considered "third-party" funding in this context), traditional contingency fees for attorneys, non-profit legal aid support, or direct loans not tied to case outcomes. The bill received overwhelming bipartisan support (112–0 in the NC House, 45–1 in the Senate), reflecting broad agreement that outside investors shouldn't turn N.C.'s courts into "financial investment markets".

North Carolina is the first state in the U.S. to enact a full ban, escalating a national debate that had mostly focused on transparency measures. Other states like Georgia, Montana, Indiana, and Louisiana recently passed laws requiring funders to register or disclose their involvement or capping their returns. But North Carolina's approach goes further, outright prohibiting the practice to combat what supporters call a driver of "legal system abuse". The insurance industry has hailed N.C.'s law as a landmark for reform, with the Insurance Information Institute noting that third-party funding has become a major contributor to rising litigation costs. According to Triple-I's Mark Friedlander, the ban "helps protect consumers, businesses and communities from the rising costs associated with excessive legal activity" and sends a message that lawsuits shouldn't be an investment vehicle. On the other side, trial lawyer groups object that banning outside funding could limit access to justice for individuals who lack the resources to sue large entities. This tension between curbing excessive litigation and ensuring fairness underlies the debate.

How does litigation funding change a lawsuit's trajectory?

In simple terms, it injects capital that can extend the fight and raise the stakes. The following diagram contrasts a case with no outside funding (often leading to earlier settlement and a moderate payout) versus a case with third-party funding (leading to a longer legal battle and potentially a much larger award):



Why Affordable Housing Developers Care: Insurance Costs and “Social Inflation”

For affordable housing operators, the insurance market has become exceedingly challenging. Property insurance premiums have surged due to an industry wide supply-demand imbalance and inflated construction costs, though the property insurance market has softened notably in the last 18 months. More pertinent to the litigation funding debate, liability claims costs have also spiked. Large verdicts and protracted litigation fueled by third-party funding are a key part of this trend. Swiss Re estimates that non-economic factors like litigation funding and plaintiff-friendly juries account for ~60% of liability claims growth in the past decade. The National Multifamily Housing Council’s 2024 risk survey likewise found “rising litigation costs – including nuclear verdicts – as a significant driver of liability insurance increases” for apartment owners. Corporate “nuclear verdicts” (jury awards >$10 million) quadrupled between 2020 and 2024, and the median size of these verdicts more than doubled – a sign of an aggressively shifting legal climate.

This litigious environment has directly affected housing providers. General liability insurance and umbrella coverage, which provide protection against tenant lawsuits, injury claims, habitability suits, etc., are becoming costlier and harder to secure. Many liability insurers of Affordable Housing developments now exclude or sublimit many “hot button” claims from their coverage. Major insurers have pointed to litigation funding as one culprit. A recent economic study conducted for the American Property Casualty Insurance Association linked third-party-funded lawsuits to $35.8 billion in direct economic costs annually, saying consumers ultimately pay more for basics like auto and home insurance as legal costs get baked in. And for affordable housing, liability claims are an emerging headache on top of property perils. Mass habitability lawsuits (e.g., mold, indoor air quality, or environmental hazard claims in older subsidized housing) are increasingly being pursued as large-scale tort cases with backing from litigation funders. Funded cases give plaintiffs’ firms more staying power, resisting quick settlements in hopes of a larger verdict. Housing owners face greater legal defense costs and the risk of “thermonuclear” damages in such suits. Third-party funding means more cases proceed to a high-cost conclusion.

The insurance impacts have been significant. Property and liability premiums for affordable multi-family housing have doubled or tripled in under a decade. A national study found median per-unit insurance costs at Low Income Housing Tax Credit (LIHTC) properties jumped ~144% from 2016 to 2023, with consecutive years of double-digit hikes. Despite recent softening in the property insurance market, some affordable housing owners now see insurance as their fastest-growing expense, outpacing rent growth and straining operating budgets. These spikes are driven by multiple factors (resident-caused property losses, inflation, insurer retreat from markets), but industry experts say the rise in high-dollar liability claims is a major piece of the puzzle. Unlike market-rate landlords, affordable housing providers often can’t raise rents to offset cost increases, which makes insurance volatility especially dangerous for their financial viability.

Could NC’s Ban Bring Relief to the Insurance Crisis in Housing?

North Carolina’s prohibition of litigation funding is a clear win for insurers and businesses in the state’s eyes. The NC Chamber of Commerce lauded the reform as strengthening the state’s legal climate and supporting economic growth and investment. There is also hope that insurers may respond by moderating their general liability or umbrella rates in North Carolina if claim severities decrease over time. For housing providers struggling with year-over-year premium hikes, this could, in theory, provide some much-needed stabilization. It’s also possible that more insurers will be willing to underwrite affordable housing risks in N.C., perceiving a lower threat of runaway litigation-funded claims.

However, caution is warranted. It remains to be seen how much impact a litigation funding ban will have on insurance outcomes. Most of the pressure on affordable housing insurance still comes from resident-caused property losses and global reinsurance conditions, which this law doesn’t address. N.C.’s ban also only affects suits filed in-state; litigation funders may still finance cases in other jurisdictions, including federal courts or neighboring states. Nonetheless, curbing third-party funding could be a positive step to mitigate social inflation in claims costs.

Bottom line: North Carolina’s litigation funding ban is a milestone in tort reform that could help temper the legal cost spiral affecting insurers and affordable housing operators. It tackles one piece of the puzzle, which insurers believe will ultimately benefit businesses, homeowners, and renters alike through more stable insurance costs. As other states debate similar measures, housing industry stakeholders are watching closely to see if this approach can deliver real savings in the risk marketplace. Only time and data will tell, but for now, North Carolina’s move sends a clear signal that controlling litigation costs is part of the strategy to preserve affordable housing. It’s a reminder that legal reforms can be just as important as financial subsidies or building codes in keeping housing truly affordable in the long run.

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