

THE STATE OF SOUTH CAROLINA
In the Court of Appeals

APPEAL FROM BERKELEY COUNTY
Court of Common Pleas

The Honorable J. Camden West
Master-in-Equity

Appellate Case Number 2026-001562

Linda Gregg,

Appellant,

v.

St. Stephen Family Dentistry, LLC

Respondent.

APPELLANT'S REPLY BRIEF

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TABLE OF CONTENTS

TABLE OF AUTHORITIES	ii
INTRODUCTION	1
ARGUMENT	1
I. RESPONDENT’S CONCESSION ON RESIDENCE LEAVES A QUESTION OF STATUTORY ENTITLEMENT, NOT EQUITABLE GRACE.	1
II. <i>LAFFERTY</i> AND <i>RILEY</i> DO NOT ESTABLISH THE UNQUALIFIED FORFEITURE RULE RESPONDENT ASSERTS.	3
A. Both decisions predate <i>Law</i> , and <i>Lafferty</i> rests independently on a federal statutory limitation.	3
B. <i>In re Ingram</i> supplies the later South Carolina bankruptcy analysis Respondent omits.	4
III. <i>SCHOLTEC’S</i> METHOD OF STATUTORY CONSTRUCTION APPLIES EVEN THOUGH ITS FACTS DIFFER.	5
IV. LAW OF THE CASE PRESERVES THE PRIOR FRAUD FINDINGS; IT DOES NOT ESTABLISH FORFEITURE OR SUPPLY MISSING ATTRIBUTION.	6
V. A CONNECTION TO MORTGAGE PAYMENTS DOES NOT JUSTIFY FORFEITURE OF ALL RESERVED PROCEEDS.	7
CONCLUSION	9

TABLE OF AUTHORITIES

Cases:

<i>First Union Nat’l Bank of S.C. v. Soden</i> , 333 S.C. 554, 511 S.E.2d 372 (Ct. App. 1998)	2
<i>Hodges v. Rainey</i> , 341 S.C. 79, 533 S.E.2d 578 (2000)	6
<i>In re Ingram</i> , 659 B.R. 489 (Bankr. D.S.C. 2024)	1, 3, 4, 5, 8
<i>In re Lafferty</i> , 469 B.R. 235 (Bankr. D.S.C. 2012).....	1, 3, 4, 5
<i>In re Riley</i> , 486 B.R. 711 (Bankr. D.S.C. 2013)	3, 5
<i>Ingram v. Kasey’s Associates</i> , 340 S.C. 98, 531 S.E.2d 287 (2000)	2, 8
<i>Judy v. Martin</i> , 381 S.C. 455, 674 S.E.2d 151 (2009).....	6
<i>Law v. Siegel</i> , 571 U.S. 415 (2014)	1, 3, 5, 5, 9
<i>Quail Hill, LLC v. County of Richland</i> , 387 S.C. 223, 692 S.E.2d 499 (2010)	6
<i>Scholtec v. Estate of Reeves</i> , 327 S.C. 551, 490 S.E.2d 603 (Ct. App. 1997)	2, 5

Statutes:

S.C. Code Ann. § 15-41-30(A)(1)(a), (A)(13) (Supp. 2025).....	2, 4, 5, 9
11 U.S.C. § 522(o)	1, 3, 4, 5, 8

INTRODUCTION

Respondent's brief narrows this appeal. Respondent does not contest the Master's finding that Appellant used the Property as her residence. (Resp.'s Br. 5, 8; Order at 6). Nor does Appellant seek to reopen the judgment establishing her wrongdoing or setting aside the conveyance to Kaufman. The question is whether those established facts authorize forfeiture of a statutory homestead exemption. They do not answer that distinct question merely because they establish misconduct.

Respondent relies principally on two (2) bankruptcy decisions predating *Law v. Siegel*, 571 U.S. 415 (2014). A later decision from the same bankruptcy district, *In re Ingram*, 659 B.R. 489 (Bankr. D.S.C. 2024), applied *Law* to South Carolina exemptions and rejected a general inequity argument unsupported by a statutory ground for disallowance. *Ingram* also discussed *Lafferty* as an application of the express federal limitation in 11 U.S.C. § 522(o), not as authority to dispense with statutory limits. That distinction matters here: this is a state judgment-enforcement proceeding, not a bankruptcy case governed by § 522(o).

Even accepting the prior findings that Appellant misappropriated funds, used some to make mortgage payments, and fraudulently conveyed the Property, Respondent has not identified a South Carolina statutory basis for extinguishing the exemption. Alternatively, a finding that some wrongful funds reached a mortgage does not establish that all of the reserved proceeds represent those funds. The Order should be reversed.

ARGUMENT

I. RESPONDENT'S CONCESSION ON RESIDENCE LEAVES A QUESTION OF STATUTORY ENTITLEMENT, NOT EQUITABLE GRACE.

Respondent characterizes the initial brief as principally an effort to prove residence, but expressly acknowledges that residence is not disputed in this appeal. (Resp.'s Br. 5). Appellant's

residence discussion explains why the statutory predicate was satisfied; it does not ask this Court to retry a favorable finding. The Order expressly found that Appellant used and considered the Property as her residence, and held that utility consumption was not determinative. (Order at 4–6). The reply therefore does not repeat that evidence.

Section 15-41-30(A)(1)(a) protects a debtor’s interest, within the applicable limit, in property used by the debtor or a dependent as a residence. Respondent identifies no unsatisfied residence requirement and no language in that subsection making its protection contingent on clean hands. Instead, Respondent labels the exemption “extraordinary relief” and invokes discretion to withhold equitable remedies. (Resp.’s Br. 6). That characterization assumes the very proposition in dispute.

Scholtec v. Estate of Reeves, 327 S.C. 551, 490 S.E.2d 603 (Ct. App. 1997), explains that homestead interests arise from constitutional and statutory provisions and that qualifying property is protected against creditor process. Gregg seeks application of that statutory protection, not a discretionary decree compelling performance of an agreement. *Ingram v. Kasey’s Associates*, 340 S.C. 98, 531 S.E.2d 287 (2000), concerned specific performance. *First Union National Bank of South Carolina v. Soden*, 333 S.C. 554, 511 S.E.2d 372 (Ct. App. 1998), concerned equitable limitations on recovery in a trust dispute. Neither holds that unclean hands extinguishes a residential exemption granted by § 15-41-30(A)(1)(a).

Respondent’s discussion of deference to credibility findings likewise does not resolve the legal issue. Appellant’s principal argument accepts the material misconduct findings for purposes of this appeal. The question is their legal consequence under the exemption statute. Respect for the Master’s assessment of witnesses does not supply authority to impose a forfeiture the statute does not provide.

II. *LAFFERTY* AND *RILEY* DO NOT ESTABLISH THE UNQUALIFIED FORFEITURE RULE RESPONDENT ASSERTS.

A. Both decisions predate *Law*, and *Lafferty* rests independently on a federal statutory limitation.

Respondent fairly identifies adverse language in *In re Lafferty*, 469 B.R. 235 (Bankr. D.S.C. 2012), and *In re Riley*, 486 B.R. 711 (Bankr. D.S.C. 2013). Those decisions did disallow exemptions on unclean-hands grounds. Appellant does not suggest that their language can be distinguished away simply because they were bankruptcy cases. But Respondent treats that language as settled South Carolina law without addressing the later Supreme Court decision limiting bankruptcy courts' equitable power over exemptions.

Lafferty also applied § 522(o) as a separate ground for reducing the homestead exemptions to zero. *See In re Lafferty*, 469 B.R. 235, 249 (Bankr. D.S.C. 2012), discussed in *In re Ingram*, 659 B.R. 489 (Bankr. D.S.C. 2024). The debtors transferred property that was nonexempt when conveyed, retained control, recovered title, and asserted exemptions in their bankruptcy cases. *Riley* involved inaccurate disclosures and failures to account for identifiable fire-insurance proceeds during bankruptcy administration. Neither decision is a binding construction of South Carolina law by a South Carolina appellate court.

In *Law*, the Supreme Court rejected a bankruptcy court's attempt to use equitable power to surcharge an otherwise exempt homestead because of the debtor's fraud involving a fictitious lien on that very home. *Law v. Siegel*, 571 U.S. 415, 424–25 (2014). The Court held that the Bankruptcy Code does not authorize additional equitable grounds for denying exemptions beyond its prescribed limitations. *Id.* Fraud concerning the homestead itself therefore did not, without the required legal basis, make statutory protection discretionary.

Law expressly preserved the role of state law in defining a state-created exemption, including state-law limitations based on misconduct. *Id.* at 425. Appellant accordingly does not contend that *Law* directly determines the scope of § 15-41-30 or categorically invalidates every state-law remedy affecting a homestead. Its narrower relevance is to Respondent's reliance on bankruptcy equity: general bankruptcy equity cannot itself establish a South Carolina forfeiture rule. The asserted state-law disqualification must be justified under South Carolina law.

B. *In re Ingram* supplies the later South Carolina bankruptcy analysis Respondent omits.

In 2024, the Bankruptcy Court for the District of South Carolina considered creditors' contention that debtors should not retain exemptions in property allegedly acquired with stolen, fraudulently obtained, or embezzled business funds. *In re Ingram*, 659 B.R. 489 (Bankr. D.S.C. 2024). The court did not resolve the objection solely on timeliness. It held that the creditors had failed to establish grounds for disallowance even assuming their objection was timely.

Applying *Law*, *Ingram* required a specific statutory basis under the Bankruptcy Code or applicable state law. The court identified no additional South Carolina limitation applicable to the exemptions before it. It rejected general unfairness as a substitute for a legal ground of disallowance and examined § 522(o) as the potentially relevant federal provision. *Id.* In doing so, it cited *Lafferty* for its § 522(o) holding, including the reduction to zero, rather than treating *Lafferty's* general equitable discussion as sufficient. *Id.*

Ingram is persuasive, not binding, in this Court. And its fraud allegations had not been adjudicated as Appellant's wrongdoing has been. That difference strengthens Respondent's proof of misconduct; it does not answer the separate question of legal authority to deny an exemption. *Ingram's* analytical sequence remains instructive: identify the governing limitation first, then

determine whether the evidence satisfies it. Respondent reverses that sequence, reasoning from established wrongdoing directly to forfeiture.

Neither *Law* nor *Ingram* expressly overrules *Lafferty* or *Riley* as a matter of South Carolina exemption law. Appellant makes no such claim. They nevertheless undermine treating the older decisions as an unqualified answer to the statutory question. Their persuasive force must be assessed in light of the later rejection of free-standing bankruptcy equity and the absence of § 522(o) from this state proceeding.

III. *SCHOLTEC'S* METHOD OF STATUTORY CONSTRUCTION APPLIES EVEN THOUGH ITS FACTS DIFFER.

Respondent dismisses *Scholtec* because it concerned whether an exemption survived the debtor's death. (Resp.'s Br. 6). Appellant does not cite *Scholtec* as a decision about unclean hands. She relies on its explanation of the source of homestead rights and its method of reading the exemption statute.

Scholtec compared exemptions expressly extended to dependents with those limited to the debtor. It treated the different language as significant and declined to extend the exemption beyond the statutory class, notwithstanding possible hardship. *Scholtec v. Estate of Reeves*, 327 S.C. 551, 490 S.E.2d 603 (Ct. App. 1997). That statutory discipline operates in both directions: courts should neither enlarge an exemption beyond its terms nor contract it by adding a disqualification absent from the governing provision.

The same statute expressly provides that a claimed retirement-account exemption may be reduced or eliminated by the amount of a fraudulent conveyance into the account or plan. S.C. Code Ann. § 15-41-30(A)(13). The residential provision contains no corresponding general unclean-hands forfeiture. *Id.* § 15-41-30(A)(1)(a). The contrast does not purport to resolve every conceivable lien or ownership dispute; it demonstrates why the complete forfeiture imposed here

requires more than invocation of general equitable discretion.

Hodges v. Rainey, 341 S.C. 79, 533 S.E.2d 578 (2000), likewise requires fidelity to unambiguous statutory language rather than insertion of omitted conditions. *Quail Hill, LLC v. County of Richland*, 387 S.C. 223, 692 S.E.2d 499 (2010), applies the principle that equity follows the law. Although neither case concerns this exemption, their reasoning supports applying the protection the General Assembly enacted rather than conditioning it on a judicial assessment of deservingness.

IV. LAW OF THE CASE PRESERVES THE PRIOR FRAUD FINDINGS; IT DOES NOT ESTABLISH FORFEITURE OR SUPPLY MISSING ATTRIBUTION.

Respondent invokes *Judy v. Martin*, 381 S.C. 455, 674 S.E.2d 151 (2009), to argue that Appellant cannot relitigate the prior determination that misappropriated funds paid mortgage expenses. (Resp.'s Br. 7–8). Appellant accepts that determination for purposes of this reply. She likewise accepts the adjudication of liability and the avoidance of the fraudulent deed. This appeal does not seek to undo any of those rulings.

Judy prevented a litigant from reopening a jurisdictional issue already resolved in an earlier appeal. Here, Respondent identifies no earlier adjudication holding that Appellant forfeited her homestead exemption or quantifying the portion of the reserved proceeds attributable to wrongful mortgage payments. The Order records that Respondent filed its homestead objection on May 16, 2017, and that \$67,100.00 was reserved under a November 16, 2023 consent order pending a ruling on that objection. (Order at 1–2). The current appeal challenges that later exemption ruling, not the prior damages judgment.

The distinction is concrete. A finding that wrongful funds were among the resources used for mortgage payments establishes use; it does not necessarily establish how much mortgage principal those payments retired, how much equity they created, or whether the entire statutory

interest represents those payments. The 2013 Order's factual discussion listed mortgage payments among several uses of the funds. Its conclusions treated the requested constructive trust or preliminary injunction as moot in light of the fraudulent-conveyance ruling. (2013 Order at 3–4). Respondent cannot transform those findings into an unexpressed adjudication that every dollar later claimed as exempt belongs beneficially to Respondent.

Nor does the home's preexisting ownership become irrelevant merely because subsequent mortgage payments may have included wrongful funds. (Resp.'s Br. 7). Appellant's point is not that a previously owned residence can never contain traceable wrongful investments. It is that longstanding ownership defeats an assumption that the entire asset originated in the misconduct and makes attribution important to any narrower recovery theory. Appellant testified that the home was built in 1997 on family land gifted by her mother. (Tr. 17:2–8, 41:16–25).

Accordingly, giving the prior judgment full effect does not require affirming the 2026 forfeiture. Established misconduct and the legal availability and extent of an exemption are distinct questions.

V. A CONNECTION TO MORTGAGE PAYMENTS DOES NOT JUSTIFY FORFEITURE OF ALL RESERVED PROCEEDS.

Respondent argues that there is a direct connection between the embezzlement and the Property. Appellant recognizes that the finding concerning mortgage payments supplies a factual connection. The principal issue is whether that connection authorizes denial of a statutory exemption at all. *Ingram v. Kasey's Associates* does not answer that question because it addressed an equitable remedy, not a statutory exemption.

Alternatively, Respondent's nexus argument does not establish the amount of any property-specific recovery. Dr. Cordray testified that checks obtained from Bank of America paid Gregg's mortgage and estimated their amount at approximately \$15,000. (Tr. 72:9–23). Appellant does not

disregard that evidence or contend there was no amount testimony. But the estimate does not identify the dates of the payments, separate principal from interest or other charges, or establish the amount of equity remaining attributable to those payments when the Property was sold. The Order quoted the mortgage-payment testimony only through line 19 and did not quantify the payments or the equity attributable to them. (Order at 5–7). At closing, counsel specifically identified the missing mortgage records and the absence of a calculation of mortgage reduction or increased equity. (Tr. 92:9–19). Respondent answered that it did not have to show that the entire exemption was paid with embezzled funds, only a connection. (Tr. 93:8–23). That is the disputed legal premise—not a substitute for proof supporting complete forfeiture.

The later bankruptcy *Ingram* decision illustrates the distinction. It separately required a legal basis for limiting the exemption and evidence of the equity attributable to fraud, and found the record insufficient where the creditors had not supplied bank statements or tracing. *In re Ingram*, 659 B.R. 489 (Bankr. D.S.C. 2024). Its federal burden and § 522(o) do not govern this case. The persuasive point is narrower: even an express fraud-based statutory reduction is not established simply by showing that some money reached the residence.

Appellant does not assert that mortgage records are the only possible means of tracing or that equity from mortgage payments could never support an otherwise authorized remedy. She asserts that an estimated \$15,000 in mortgage-related payments does not, without further attribution, establish Respondent’s entitlement to all \$67,100 reserved by the Sheriff. (Tr. 72:21–23; Order at 2, 5–7). Appellant also testified that she made subsequent mortgage payments from 2017 through 2023 and that those payments reduced the balance. (Tr. 45:15–46:16). That testimony does not establish the precise exempt equity either; it illustrates why the entire reserved fund cannot simply be equated with the earlier wrongful payments. This alternative argument does

not concede that South Carolina law authorizes any reduction of the statutory exemption on these facts, much less a \$15,000 offset. Recognition of the attribution deficiency does not reopen the adjudicated fraud.

Respondent's hypothetical debtor who purchases a home entirely with embezzled funds therefore does not decide this appeal. (Resp.'s Br. 8). A claim to specifically identified property purchased with another's money presents a different question from extinguishing the whole exemption in a preexisting residence on generalized mortgage-payment findings. This Court need not declare immunity for stolen property to reject the total forfeiture ordered here.

CONCLUSION

Respondent's brief leaves the residence finding undisputed but supplies no South Carolina statutory ground for the complete forfeiture imposed. Its bankruptcy authorities must be considered alongside *Law* and the later South Carolina bankruptcy decision in *Ingram*, and its law-of-the-case argument does not establish either forfeiture or attribution of all reserved proceeds.

Consistent with the relief requested in her initial brief, Gregg respectfully requests that this Court: (1) reverse the June 16, 2026 Order denying the homestead exemption; (2) hold that Gregg is entitled to the exemption under S.C. Code Ann. § 15-41-30(A)(1)(a); (3) remand with instructions to release the exempt funds and associated interest in accordance with Gregg's homestead claim; or (4) alternatively, vacate the denial and remand for further proceedings governed by the statutory text, without a free-standing unclean-hands forfeiture.

"The parties jointly requested a determination whether the exemption amount should be measured when judgment was entered or when the sale occurred; the Master expressly left that issue undecided as moot because he awarded all funds to Respondent. (Order at 6–7). To the extent resolution of that amount is necessary to implement the mandate, it should be addressed on remand.

Gregg does not abandon her claim to the \$67,100 reserved fund or concede Respondent's proposed lower amount. The unresolved amount does not justify denying the exemption altogether.

Respectfully submitted,

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