



Markets

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Former Head of Student Finance on Trial

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WILMINGTON, Del. — The former head of the Student Finance Corp. used money from the company to shower his mistress with money and gifts and to pay off gambling debts, then lied about the expenditures in a bankruptcy proceeding, prosecutors said Monday.

Andrew N. Yao, 45, of Bryn Mawr, Pa., is charged with two counts of bankruptcy fraud.

Defense attorney Brian McMonagle acknowledged in his opening statement that Yao lied in a 2003 deposition, but that he was simply trying to cover up an extramarital affair with a woman who had appeared as a centerfold in Playboy and Penthouse magazines.

A federal grand jury in Wilmington indicted Yao a year ago on 14 counts of fraud, money laundering and making false statements related to the 2002 bankruptcy filing of SFC. Prosecutors later dismissed 12 counts and said they would refile them in Pennsylvania after defense attorneys argued that the alleged acts did not occur in Delaware.

The two remaining counts allege that Yao lied in 2003 to an attorney for Royal Indemnity, a company that insured hundreds of millions of dollars in SFC student loans. After SFC declared bankruptcy, Royal Indemnity argued that SFC had misrepresented the credit worthiness and employment histories of its borrowers.

In civil lawsuits, Royal has alleged that Yao operated SFC, which specialized in loans to students at truck driving schools, as a Ponzi-type scheme in which he conspired with schools to generate as many loans as possible, then fraudulently obtained new loans from Wilmington Trust, Wells Fargo and other institutions to pay down older loans that had gone into default.

By the time SFC declared bankruptcy, claims against Royal for defaulted loans totaled at least \$380 million.

The Royal Indemnity attorney questioned Yao about three 2001 wire transfers totaling \$669,000 from SFC's bank account to an "A. Karlsen," and two others totaling \$150,000 to Las Vegas casinos.

In a videotape excerpt of his deposition that was played for the jury during afternoon testimony, Yao initially feigned ignorance about Karlsen, then suggested Karlsen was a contact person at Wells Fargo bank, where a contractor doing maintenance on two aircraft owned by an SFC affiliate had an account.

"The maintenance costs were considerable," Yao testified.

Karlsen was Yao's former mistress, Alexandra "Lexie" Karlsen Wolfe, who is scheduled to testify Tuesday.

"He gave her money, and he gave her jewelry and he lavished her with material things," McMonagle said of Karlsen. "He gave her a million reasons to smile."

McMonagle nevertheless said the money was Yao's to spend as he saw fit, that it was spent long before SFC was forced into bankruptcy, and that Yao, who was SFC's sole shareholder, never intended to deceive the bankruptcy court or creditors.

"What he lies about and the way he lies has everything to do with her," he said.

Assistant U.S. Attorney Shannon Hanson argued that Yao tried to conceal the nature of his expenditures because he faced a bankruptcy hearing two weeks later on motions to have him removed as debtor in possession of SFC and to have the bankruptcy converted from a Chapter 11 reorganization to a Chapter 7 sell-off.

"This case is about control," Hanson told the jury.

In addition to the payments to Karlsen, prosecutors allege in court documents that Yao also gave more than \$10,000 each to four other women, and that he lied about his relationships with them as well.

In his deposition, Yao acknowledged authorizing a \$100,000 wire transfer from an SFC account to the Mandalay Bay casino in December 2001, and a \$50,000 transfer to the Bellagio eight weeks later. He twice stated that he does not gamble, adding that the money may have been used to pay for his lodging at the casinos, and for lodging and gambling by relatives and friends.

Prosecutors said representatives of the casinos will testify Tuesday that Yao gambled "on multiple occasions."

Yao also said in his deposition that the transfer of \$100,000 to Mandalay Bay was made "during

the ordinary course of business," which if true would make it difficult for a judge to order the money returned for distribution to SFC creditors under the bankruptcy code's "look-back" provisions.

"I received no personal benefit from it," Yao testified.



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