StoneCastle Financial Corp.
Form N-2/A
July 26, 2016

As filed with the Securities and Exchange Commission on July 26, 2016

Securities Act File No. 333-204417

Investment Company Act File No. 811-22853

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

x **REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

x **Pre-Effective Amendment No. 2**

o **Post-Effective Amendment No.**

and

x **REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**

x **Amendment No. 11**

STONECASTLE FINANCIAL CORP.

(Exact Name of Registrant as Specified in Charter)

152 West 57th Street, 35th Floor, New York, New York 10019

(Address of Principal Executive Offices)

Registrant s Telephone Number, Including Area Code: **(212) 354-6500**

Joshua S. Siegel

StoneCastle Financial Corp.

152 West 57th Street, 35th Floor
New York, New York 10019

(Name and Address of Agent for Service)

Copies of communications to:

John P. Falco, Esq.

Pepper Hamilton LLP

3000 Two Logan Square

18th and Arch Streets

Philadelphia, PA 19103

Approximate date of proposed public offering**: As soon as practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box)

x when declared effective pursuant to Section 8(c).

If appropriate, check the following box:

o This amendment designates a new effective date for a previously filed registration statement.

o This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Aggregate Offering Price (1) (2)	Amount of Registration Fee (2)
Shares of Common Stock, $0.001 par value per share			
Shares of Preferred Stock, $0.001 par value per share			
Subscription Rights			
Debt Securities			
Total		$ 150,000,000	$ 17,430(3)

(1) There are being registered hereunder such indeterminate number of shares of common stock, preferred stock, subscription rights and debt securities as shall have an aggregate offering price not to exceed $150,000,000, less the aggregate dollar amount of all securities previously issued hereunder. If any debt securities are issued at an original issue discount, then the offering price of such debt securities shall be in such greater principal amount as shall result in an aggregated offering price not to exceed $150,000,000, less the aggregate dollar amount of all securities previously issued hereunder. The securities registered hereunder also include such indeterminate number of securities of each identified class of securities, which may be offered from time to time in unspecified numbers and at indeterminate prices, and as may be issued upon conversion, redemption, repurchase, exchange or exercise of any securities registered hereunder, including under any applicable anti-dilution provisions of any of such securities. In addition, the securities being registered hereunder includes such indeterminate number of securities of each identified class of securities as may be issuable with respect to the securities being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(o) under the Securities Act based on the proposed maximum aggregate offering price of all securities listed.

(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to completion, dated July 26, 2016

PROSPECTUS

$150,000,000

Common Stock
Preferred Stock
Subscription Rights
Debt Securities

Investment Company. StoneCastle Financial Corp. (we, us, our or the Company) is a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the Investment Company Act). We have elected to be treated, and intend to comply with the requirements to qualify annually, as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). We are managed by StoneCastle Asset Management LLC (the Advisor), a subsidiary of Stone Castle Partners, LLC (StoneCastle Partners), a leading asset management firm that invests in community banks and related financial assets throughout the United States. StoneCastle Partners and its subsidiaries managed almost $11.0 billion of assets focused on community banks, including approximately $1.5 billion of capital invested in more than 250 banking institutions and over $9.5 billion of institutional cash in over 600 banks as of December 31, 2015.

Investment Objectives. Our primary investment objective is to provide stockholders with current income, and to a lesser extent capital appreciation. There can be no assurance that we will achieve our investment objectives.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $150 million of our common stock, preferred stock, subscription rights or debt securities, which we refer to, collectively, as the securities. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value (NAV) per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors or (3) under such circumstances as the Securities and Exchange Commission (the SEC) may permit. See Risk Factors for more information.

Investing in our securities involves risks. See Risk Factors beginning on page 46 of this prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Our common stock is listed on the NASDAQ Global Select Market under the symbol BANX . On March 28, 2016, the last reported sale price of our common stock on the NASDAQ Global Select Market was $17.26 per share.

This prospectus sets forth information about us that a prospective investor should know before investing. This prospectus may not be used to consummate sales of securities by us through underwriters, dealers or agents unless it is accompanied by a prospectus supplement. You should read this prospectus any accompanying prospectus supplement carefully and retain it for future reference. We have filed a Statement of Additional Information, dated [ ], 2016, containing additional information about us with the SEC, which is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information or our annual and semi-annual reports or make shareholder inquiries or request other information about us by calling us collect at (212) 354-6500 or by writing to us at 152 West 57th Street, 35th Floor, New York, New York 10019. You can also obtain, free of charge, a copy of our Statement of Additional Information and our annual and semi-annual reports to stockholders on our website at www.stonecastle-financial.com. The content contained in, or that can be accessed through, our website is not a part of this prospectus. You can review and copy documents we have filed at the SEC s Public Reference Room in Washington, DC. Call 1-800-SEC-0330 for information. The SEC charges a fee for copies. You can obtain the same information free from the SEC s website at http://www.sec.gov, on which you may view our Statement of Additional Information, and other materials incorporated by reference to this prospectus and other information about us. You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the SEC s Public Reference Section, 100 F Street N.E., Room 1580, Washington, D.C. 20549.

Our common stock does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. We are offering to sell, and seeking offers to buy, shares of securities only in jurisdictions where offers and sales are permitted. This prospectus and any accompanying prospectus supplement does not constitute an offer to sell or the solicitation of an offer to buy any security other than the securities offered by this prospectus and any accompanying prospectus supplement, nor does this prospectus or any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities by anyone in any jurisdiction in which such offer or solicitation would be unlawful. The information contained in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus and any accompanying prospectus supplement, regardless of the time of delivery of this prospectus, any accompanying prospectus or any sale of securities.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus, including Risk Factors, before making a decision to invest in our securities. This summary may not contain all of the information that you should consider before investing in the securities of StoneCastle Financial Corp. In the prospectus, unless the context suggests otherwise, references to we, us, Company, our company or our refer to StoneCastle Financial Corp., a Delaware corporation and its subsidiaries; references to Advisor mean StoneCastle Asset Management LLC, a Delaware limited liability company; references to StoneCastle Partners mean Stone Castle Partners, LLC, the parent of StoneCastle Asset Management LLC, our Advisor; references to common stock or shares mean the common stock of StoneCastle Financial Corp; and references to securities mean the common stock, preferred stock, subscription rights and debt securities of StoneCastle Financial Corp.

The Company

StoneCastle Financial Corp. was organized on February 7, 2013 as a Delaware corporation established to continue and expand the business of StoneCastle Partners, which commenced operations in 2003, making investments in the community banking sector throughout the United States. Our primary investment objective is to provide stockholders with current income and, to a lesser extent, capital appreciation. We expect to continue to focus our investments on preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity that will generally be expected to pay us dividends and interest on a current basis and generate capital gains over time. We may seek to enhance our returns through the use of warrants, options and other equity conversion features.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC under Subchapter M of the Code.

Investment Objectives

Our primary investment objective is to provide stockholders with current income, and to a lesser extent, capital appreciation. There can be no assurance that we will achieve our investment objectives.

We attempt to achieve our investment objectives through investment in preferred equity, subordinated debt, convertible securities and common equity in the U.S. community bank sector. See Community Banking Sector Focus. To a lesser extent, we also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies. Together with banks, we refer to these types of companies as banking-related businesses and intend, under normal circumstances, to invest at least 80% of the value of our net assets plus the amount of any borrowings for investment purposes in such businesses.

We expect to continue to focus our portfolio of securities and investments on the bank sector, with an emphasis on community banks. We intend to continue to direct investments in numerous issuers differentiated by asset size, business models and geographies.

We may indirectly invest in securities issued by banks through structured securities and credit derivatives. We currently invest in equity and junior debt tranches of collateralized loan obligations, or CLOs, and other debt securitizations, that are collateralized by a portfolio consisting primarily of unsecured, subordinated loans made to (and, to a lesser extent, unsecured, subordinated debentures and notes issued by) community banks or savings institutions or their respective holding companies. We may also invest in other securities and instruments that are related to these investments or that our Adviser believes are consistent with our investment objectives, including senior debt tranches of CLOs and loan accumulation facilities. These indirect investments provide exposure to and focus on the same types of direct investments that we make in banking companies and, accordingly, our investments in structured securities and credit derivatives that provide exposure to banking related business are considered an investment in banking-related businesses. We believe that the use of such instruments complement our overall strategy and enhance the diversity of our holdings.

With the proceeds of this equity offering and future equity offerings we will seek to grow and further diversify our portfolio of investments. We may also incur additional leverage to the extent permitted by the Investment Company Act. See Leverage. Although we normally seek to invest substantially all of our assets in banking-related securities, we reserve the ability to invest up to 20% of our assets in other types of securities and instruments.

Additionally, we may take temporary defensive positions that are inconsistent with our investment strategy in attempting to respond to adverse market, economic, political or other conditions. If we do so, we may not achieve our investment objective. We may also choose not to take defensive positions.

Our Advisor

StoneCastle Asset Management LLC, an SEC-registered investment advisor dedicated to the community banking sector that was formed on November 14, 2012, manages our assets. Our Advisor is registered with the SEC under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act). Our Advisor is staffed with investment professionals from its affiliates, which collectively manage one of the largest portfolios of assets dedicated to the U.S. community bank sector, with over a ten-year history of investing in trust preferred capital securities issued by, or, other obligations of, community, regional and money center banks. As of December 31, 2015, StoneCastle Partners and its subsidiaries managed almost $11.0 billion of assets focused on community banks, including approximately $1.5 billion of capital invested in more than 250 banking institutions and over $9.5 billion of institutional cash in over 600 banks. Our Advisor s investment philosophy is grounded in disciplined, fundamental, bottom-up credit and investment analysis. We intend to continue to use our Advisor s existing community banking infrastructure to identify attractive investment opportunities and to underwrite and monitor our investment portfolio.

Our Advisor is wholly-owned by StoneCastle Partners. StoneCastle Partners is managed by its two managing partners: Joshua S. Siegel (founder & CEO) and George Shilowitz (each, a Managing Partner and, together, the Managing Partners). Charlesbank Capital Partners, LLC, a leading private equity investment manager, and CIBC Capital Corporation (CIBC Capital), a subsidiary of Canadian Imperial Bank of Commerce, own minority interests in StoneCastle Partners.

Each of our Advisor s investment decisions is reviewed and approved for us by our Advisor s investment committee, the members of which may also act as the investment committee for other investment vehicles managed by our Advisor or its affiliates. Our Advisor s two senior officers, Messrs. Siegel and Shilowitz, each have over twenty years of experience advising and investing in financial institutions, investing in financial assets and building financial services companies.

Our Advisor has entered into a staffing agreement with StoneCastle Partners and several of its affiliates. Under the staffing agreement, these companies make experienced investment professionals available to our Advisor and provide our Advisor access to the senior investment personnel of StoneCastle Partners and its affiliates. Our Advisor intends to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of StoneCastle Partners investment professionals. Biographical information for key members of our Advisor s investment team is set forth below under Management Biographical Information. As our investment advisor, our Advisor is obligated to allocate investment opportunities among us and its other clients in accordance with its allocation policy; however, there can be no assurance that our Advisor will allocate such opportunities to us fairly or equitably in the short-term or over time.

Community Banking Sector Focus

We intend to pursue our investment objective by continuing to invest principally in public and privately-held community banks located throughout the United States. For the purpose of our investment objectives and this prospectus, we define community bank to mean banks, savings associations and their holding companies with less than $10 billion in consolidated assets that serve local markets. As of December 31, 2015, the community banking sector is a highly fragmented $3.0 trillion industry, comprised of over 6,100 banks located throughout the United States, including underserved rural, semi-rural, suburban and other niche markets. Community banks generally have simple, straightforward business models and geographically concentrated credit exposure. Community banks typically do not have exposure to non-U.S. credit and are focused on lending to borrowers in their distinct communities. As a result, we believe that community banks frequently have a better understanding of the local businesses they finance than larger banking organizations. Many of these community banks are well established, having been in business on average for more than 75 years, and having survived many economic cycles, including the most recent financial crisis. We expect to continue to focus our investments in the bank sector with an emphasis on community banks. We intend to continue to direct investments in numerous issuers differentiated by asset sizes, business models and geographies. To a lesser extent, we may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies.

Market Opportunity

We believe that the community banking sector is attractive due to the strong long-term performance of community banks and the general lack of investment competition from institutional investors. The Company was formed to invest in the ongoing capital needs of community banks. We believe that the environment for investing in community banks is attractive for the following reasons:

- *Long-Term Resiliency of Community Banks*. The community banking industry has a long history of resiliency and historically has exhibited a low rate of failure. According to data from the Federal Deposit Insurance Company (FDIC), since 1934, FDIC insured banks and thrifts have failed at an annual rate of 0.37%, with peak cycle one-year failure rates of 3.22% in 1989 (S&L crisis), 1.96% in 2010 (Great Recession) and 0.54% in each of 1937 and 1938 (Great Depression). We believe that these figures are comparable with Baa and Ba Moody s rated corporate bond default rates, which experienced an average annual default rate since 1920 of approximately 0.27% for Moody s Baa-rated corporate bonds and 1.07% for Ba-rated bonds, with the highest one year default rates of 1.99% and 11.69%, for Baa-rated and Ba-rated corporate bonds, respectively, as reported in Annual Default Study: Corporate Default and Recovery Rates, 1920-2013 released on February 28, 2014.

- *Greater Equity Cushions.* While community banks are generally subject to the same regulations as their larger competitors, community banks have historically maintained significantly larger amounts of equity capital. Given that community banks do not typically have access to different forms of capital from the public markets, most equity in community banks is comprised of common equity, a form considered of the highest quality by federal and state banking regulators. As of December 31, 2015, banks with less than $10 billion of assets maintained Tier 1 risk-based capital ratios 19% higher than banks with more than $10 billion of assets. Given that banks over $10 billion have 32% higher non-current loans to loans (1.74% vs. 1.13%), community banks generally have significantly better equity cushions than their larger competitors.

- *Large Fragmented Market.* Community banks collectively controlled nearly $3.0 trillion of financial assets as of December 31, 2015. Despite significant industry consolidation since 1980, as of December 31, 2015 there were still more than 6,100 FDIC-insured banks in the United States. As of such date, more than 98% of these banks had less than $10 billion of assets and many primarily service their local communities. We believe that the highly fragmented nature of the industry poses significant challenges for potential investors seeking to implement a diversified investment strategy.

- *Robust Demand for Capital.* Regulatory changes are requiring all banks to hold increased levels of capital. This requirement creates what we believe to be strong demand for capital in the form of preferred equity, subordinated debt, convertible securities and common equity. Further, capital is needed to facilitate ongoing consolidation within the banking industry, including acquisitions of failed banks from the FDIC. Lastly, organic growth of well-positioned institutions also supports demand. Our Advisor estimates that the community banking sector will require more than $35 billion of capital over the next several years to facilitate (i) compliance with heightened regulatory capital ratios, (ii) acquisition of competitors and failed banks and (iii) organic asset growth. This estimate is in part based on the size of the trust preferred Collateralized Debt Obligation (CDO) market and the phase out of trust preferred securities from the definition of Tier 1 capital.

- *Constrained Supply of Capital.* We believe that the supply of new capital available to community banks is extremely constrained and will remain so for many years. We also believe that there are many community banks with well-established franchises and cash flow characteristics that are not attracting capital from private equity or other institutional investors because: (i) they are perceived by such investors as risky due to their size; (ii) the companies are located in rural or niche markets that are unfamiliar to institutional investors; or (iii) the investments in these companies are too small given (a) the size of the target companies and (b) limitations on majority ownership dictated by certain banking regulations. We believe that these companies represent attractive investment candidates for us. We believe that this lack of institutional investor interest and the inability of most community banks to access the capital markets will enable us to invest at attractive pricing levels.

- *Sector Overlooked by Institutional Capital Providers.* We believe that many investors historically have avoided investing in community banks due to the small size of these banks, their heavy regulation, the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act) which imposes ownership restrictions and the perception that community banks are riskier than larger financial institutions. In addition, many capital providers lack the necessary technical expertise to evaluate the quality of the small- and mid-sized privately-held community banks and lack a network of relationships to identify attractive opportunities.

- *Favorable Market Conditions.* We believe that the substantial re-pricing of risk resulting from the recent financial crisis along with significantly improved bank balance sheets since the worst period of the crisis has created an ideal environment for us to continue our investment activities. Bank failures and unprecedented losses by large money-center banks and investment banks related to sub-prime mortgages and other higher risk financial products have negatively affected the view of all banks, including smaller banks not engaged in such activities. As a consequence, valuations of financial institutions have declined substantially since 2004, allowing potential investors to dictate favorable terms.

Summary of Principal Risks

An investment in our securities involves risk, and we urge you to consult your tax and legal advisors before making an investment in our securities. You could lose some or all of your investment. See Risk Factors.

An investment in our common stock involves significant risks, including:

Risks Related to Our Operations

- We have a limited operating history, our Advisor has limited advisory experience, and there can be no assurance that we will achieve our business objectives.

- Our performance is highly dependent on our Advisor.

- Most of our assets will be unrated, illiquid, and their fair value may not be readily determinable.

- Our Advisor may rely on assumptions that prove to be incorrect.

- Our Advisor and its affiliates may serve as investment advisor to other funds, investment vehicles and investors, which may create conflicts of interest not in the best interest of us or our stockholders.

- TARP Preferred are perpetual, which means these securities do not have a maturity date and we are not permitted to cause them to be redeemed.

- TARP Preferred are callable, which means the issuer may buy back these securities. As of December 31, 2015, the current dividend rate on the majority of TARP Preferred is 9%. A majority of these securities experienced a dividend rate increase to 9% from 5% in late 2013 or through early 2015. Due to this significant increase in the dividend rate from 5%, there may be a strong incentive for banks to buy back their TARP Preferred.

- We expect that the majority of the new issue preferred stock in which we invest will be non-cumulative and our portfolio may consist of (i) up to 100% of non-cumulative preferred equity securities, (ii) a substantial amount of cumulative preferred equity securities or (iii) any combination thereof.

- We operate with leverage, which may adversely affect our return on our assets and may reduce cash available for distribution.

- Our investment portfolio is recorded at fair value, with our board of directors having final responsibility for overseeing, reviewing and approving, in good faith, our estimate of fair value and, as a result, there is uncertainty as to the value of our investments.

- Our investments will be subject to dividend and interest rate fluctuations, and we are subject to interest rate risk. In particular, our investments in subordinated or unsecured debt securities that are perpetual or have maturities in excess of ten years subject us to a high degree of interest rate risk.

- We may acquire CLO equity and junior debt securities that are subordinated to more senior tranches of CLO debt. CLO equity and junior debt securities are typically highly levered and, therefore, the junior debt and equity tranches in which we are currently invested and in which we may invest will be subject to a higher degree of risk of total loss. Investors in CLO securities indirectly bear risks of the collateral held by such CLOs. We generally have the right to receive payments only from the CLOs, and generally do not have direct rights against the underlying borrowers or the entity that sponsored the CLO. While the CLOs in which we invest or may invest generally enable the investor to acquire interests in a pool of senior secured loans without the expenses associated with directly holding the same investments, we generally pay a proportionate share of the CLOs administrative and other expenses. Although it is difficult to predict whether the prices of assets underlying CLOs will rise or fall, these prices (and, therefore, the prices of the CLOs securities) are influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. CLOs present risks similar to those of other types of credit investments, including default (credit), interest rate and prepayment risks. The interests we acquire in CLOs generally are thinly traded or have only a limited trading market. CLO securities are typically privately offered and sold, even in the secondary market. As a result, investments in CLO securities are illiquid.

- We may compete with a number of other prospective investors for desirable investment opportunities.

- We may generate low or negative rates of return on capital, and we may not be able to execute our business plans as expected, if at all.

- Our business model depends to a significant extent upon strong referral relationships, and our inability to maintain or develop these relationships, as well as the failure of these relationships to generate investment opportunities, could adversely affect our business.

- If we are unable to source investments effectively, we may be unable to achieve our investment objective.

- Our quarterly results may fluctuate.

- We make distributions to our stockholders on a quarterly basis out of assets legally available for distribution, including net investment income, capital gains, paid-in capital and borrowings. If the amount of any distribution exceeds our net investment income or capital gains, then all or a portion of such distribution could constitute a return of capital to stockholders rather than dividend income for tax purposes. A return of capital distribution has the effect of lowering stockholders basis in their shares, which will result in higher tax liability when the shares are sold, even if such shares have not increased in value or have, in fact, lost value. In addition to the tax consequences, such a distribution is a return of a shareholder s own investment, but distributed net of Fund expenses, and will decrease the funds available for investment by the Fund. For our fiscal year ended December 31, 2014, approximately 60% of the distributions the Fund made to stockholders that we made for the fiscal year ended December 31, 2014 consisted of a return of capital, and not income or gains generated from our investment portfolio. For our fiscal year ended December 31, 2015, approximately 13.4% of the distributions the Fund made to stockholders consisted of a return of capital, and not income or gains generated from our investment portfolio.

- Derivatives transactions may limit our income or result in losses.

- Financing arrangements with lenders or preferred shareholders may limit our ability to make dividend payments to our stockholders.

- We may change our business strategy and operational policies without stockholder consent (unless stockholder consent is specifically required by the Investment Company Act), which may result in a determination to pursue riskier business activities.

- Laws and regulations may prohibit the banks in which we invest from paying interest and/or dividends to us.

- Legal and regulatory changes could occur that may adversely affect us.

- We may be required to register as a commodity pool operator.

- Market fluctuations caused by force majeure, terrorism or certain other acts may adversely affect our performance.

- Changes in interest rates may affect our net investment income, reinvestment risk and the probability of defaults of our investments.

Risks Related to Our Use of Leverage

- We currently have a bank loan to finance investments as a form of leverage. We also have authority to issue preferred stock or engage in reverse repurchase agreements to finance investments.

- Leverage exaggerates the effects of market downturns or upturns on the NAV and market value of our common stock, as well as on distributions to holders of our common stock.

• Leverage can also increase the volatility of our NAV, and expenses related to leverage can reduce our income.

• In the case of leverage, if our assets decline in value so that asset coverage requirements for any borrowings or preferred stock would not be met, we may be prevented from paying distributions, which could jeopardize our qualification for pass-through tax treatment, make us liable for excise taxes and/or force us to sell portfolio securities at an inopportune time.

• The use of leverage through investments such as CLO equity or junior debt securities that inherently involve leverage, may magnify our risk of loss. CLO equity or junior debt securities are very highly leveraged, and therefore the CLO securities in which we are currently invested and in which we intend to invest are subject to a higher degree of loss since the use of leverage magnifies losses.

• We have entered into a revolving credit facility (the Credit Facility) with a syndicate of financial institutions led by Texas Capital Bank, N.A. (collectively, the Syndicate) with a five-year term maturing in June, 2019 and priced at a term of 1,2 or 3-month London Interbank Offered Rate (LIBOR) plus 2.85%. The Credit Facility permits us to borrow up to $70.0 million of which $50.5 million has been committed and drawn as of the date of this prospectus. The Credit Facility contains customary covenants, negative covenants and default provisions, including covenants that limit our ability to incur additional debt or consolidate or merge into or with any person, other than as permitted, or sell, lease or otherwise transfer, directly or indirectly, all or substantially all of its assets.

• The Credit Facility imposes asset coverage requirements, which are more stringent than those imposed by the Investment Company Act, or by our policies. In addition, we agreed not to purchase assets not contemplated by the investment policies and restrictions in effect when the Credit Facility became effective unless changes to these policies and restrictions are consented to by the Syndicate.

- The covenants or guidelines under the Credit Facility could impede the Advisor from fully managing our portfolio in accordance with our investment objectives and policies. Furthermore, non-compliance with such covenants or the occurrence of other events could lead to the cancellation of the Credit Facility.

- For as long as the Credit Facility remains in effect, we may not incur additional debt under any other facility, except in limited circumstances.

- The Credit Facility allows us to prepay borrowings under the Credit Facility at any time. We do not anticipate that such guidelines will have a material adverse effect on the holders of our common stock or on our ability to achieve our investment objectives. We may also consider alternative measures of obtaining leverage in the future.

See Leverage, and also Risk Factors Risks Related to Our Use of Leverage, for further information.

Risks Related to Investing in Community Banking Sector

- Our assets will be concentrated in the banking industry, potentially exposing us to greater risks than companies that invest in multiple sectors.

- We primarily invest in equity and debt securities issued by community banks, subjecting us to unique risks.

- All of our investments are subject to liquidity risk, but we may face higher liquidity risk if we invest in debt obligations and other securities that are unrated and issued by banks that have no corporate rating.

- We expect to keep our portfolio of securities and investments focused on the bank sector, with an emphasis on community banks, which would make us more economically vulnerable in the event of a downturn in the banking industry.

- A large number of community banks may fail during times of economic stress.

- We expect to keep our portfolio of securities and investments focused on the bank sector, with an emphasis on community banks whose business is subject to greater lending risks than larger banks.

Bank Regulatory Risk

- The banking institutions in which we invest are subject to substantial regulations that could adversely affect their ability to operate and the value of our investments.

- We may become subject to adverse current or future banking regulations.

- Ownership of our stock by certain types of regulated institutions may subject us to additional regulations.

- Investments in banking institutions and transactions related to our portfolio investments may require approval from one or more regulatory authorities.

- If we were deemed to be a bank holding company or thrift holding company, bank holding companies or thrift holding companies that invest in us would be subject to certain restrictions and regulations.

Risks Related to Our Advisor and/or its Affiliates

- Our performance is dependent on our Advisor, and we may not find a suitable replacement if the management agreement is terminated.

- The departure or death of any of the members of senior management of our Advisor or StoneCastle Partners may adversely affect our ability to achieve our business objective; our management agreement does not require the availability to us of any particular individuals.

- If our Advisor ceases to be our manager under our management agreement, financial institutions that provided our credit facilities may not provide future financing to us.

- Our Advisor s liability is limited under our management agreement, and we have agreed to indemnify our Advisor against certain liabilities.

- There may be potential conflicts of interest between our management and our Advisor, on one hand, and the interest of our common stockholders, on the other.

- We are limited in our ability to conduct transactions with affiliates.

- Our Advisor s investment committee is not independent from its management.

- We may compete with our Advisor s current and future investment vehicles for access to capital and assets.

- There may be other conflicts of interest in our relationship with our Advisor and/or its affiliates that could negatively affect our earnings.

- Our Advisor s management of our business is subject to the oversight of our board of directors, but our board of directors will not approve each business decision made by our Advisor.

- Our Advisor may be incentivized to incur additional leverage, up to the extent permitted by regulations, even if additional leverage is not in the best interests of the Company s stockholders.

Risks Related to Offerings

- The price for our common stock may be volatile.

- The price for our common stock is subject to market risk.

- Future offerings of debt securities or preferred stock, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market value of our common stock.

Risks Related to Taxation

- Despite our election to be treated as a RIC, we may not be able to meet the requirements to maintain an election to be treated as a RIC.

- We will be subject to corporate-level federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code.

- Whether an investment in a RIC is appropriate for a Non-U.S. Stockholder will depend upon the Non-U.S. Stockholder s particular circumstances.

We strongly urge you to review carefully the discussion under U.S. Federal Income Tax Considerations and to seek advice based on your particular circumstances from an independent tax advisor.

Competitive Advantages

We believe that our significant focus on the community banking sector provides us with a strong competitive advantage relative to non-specialized investors. We believe that we are well-suited to meet the capital needs of the community banking sector for the following reasons:

- *Experience in the Community Banking Sector.* The current investment platform of our Advisor s affiliate, StoneCastle Partners, provides us with significant advantages in sourcing, evaluating, executing and managing investments. StoneCastle Partners and its subsidiaries managed almost $11.0 billion of assets focused on community banks, including approximately $1.5 billion of capital invested in more than 250 banking institutions and over $9.5 billion of institutional cash in over 600 banks as of December 31, 2015.

- *Substantial Access to Deal Flow.* In order to execute our business strategy, we currently rely on what we believe to be our Advisor s and its affiliates strong reputations and deep relationships with issuers, underwriters, financial intermediaries and sponsors, as well as our exclusive investment referral and endorsement relationships with CAB Marketing, LLC and CAB, L.L.C. (collectively referred to as CAB), subsidiaries of the American Bankers Association (ABA). Pursuant to the agreements governing these relationships, CAB assists us with the promotion and identification of potential investment opportunities through marketing campaigns, placements at ABA events and introductions to banks seeking capital. In addition, CAB has granted to us a license to use the CAB name, Corporation for American Banking, in connection with our investment program. We may use this name in connection with the promotion and identification activities, including emails, press releases, events and due diligence questionnaires targeting ABA members. Most capital raising activities by community banks are conducted through privately-negotiated transactions that occur outside of traditional institutional investment channels, including the capital markets. We believe that StoneCastle Partners and CAB s large network of relationships will help us to identify attractive investment opportunities and will provide us with a competitive advantage. The ABA and its subsidiaries have not endorsed any future offering, and you should not construe references to them in this prospectus as such an endorsement.

- *Experienced Management Team.* StoneCastle Partners and its affiliates are led by StoneCastle Partners two Managing Partners, Joshua S. Siegel and George Shilowitz, and as of December 31, 2015, had approximately 55 employees. Our investment team is comprised of professionals who have substantial expertise investing in community banks, and includes former senior bankers, credit officers, private equity investors, rating agency analysts, bank examiners, fixed income specialists and attorneys.

- *Specialized / Proprietary Systems.* During the past decade, StoneCastle Partners has invested substantial funds and resources into the development of its proprietary analytic systems/database that is dedicated to analyzing banks (the RAMPART systems). RAMPART currently tracks and analyzes every bank in the United States and provides our investment professionals with significant operational leverage, allowing our team to sort through vast amounts of data to screen for potential investments. We believe that few institutional investors have developed infrastructure comparable to that of StoneCastle Partners and its affiliates.

- *Disciplined Investment Philosophy and Risk Management.* Our Advisor s senior investment professionals have substantial experience structuring investments that balance the needs of community banks with appropriate levels of risk control. Our Advisor s investment approach for us emphasizes current income and, to a lesser extent, capital appreciation through common equity, warrants, options and conversion features. Given that a significant portion of our investments are fixed income-like (including preferred stock), preservation of capital is our priority and we seek to minimize downside risk by investing in banks that exhibit the potential for long-term stability (See The Company Investment Process and Due Diligence).

- *Few Organized Competitors.* We believe that several factors render many U.S. investors and financial institutions ill-suited to lend to or invest in community banks. Historically, the relatively small size of individual community banks and certain regulatory requirements limiting control have deterred many institutional investors, including private equity investors, from making those investments. We believe that, as a consequence, few institutional investors have developed and possess the specialized skills and infrastructure to efficiently analyze and monitor investments in community banks on a large scale. Based on the experience of our management team, investing in community banks requires specialized skills and infrastructure, including: (i) the ability to analyze small community banking institutions and the local economies in which they do business; (ii) specialized systems to analyze and track vast amounts of bank performance data; (iii) a deep understanding and working relationship with state and federal regulators that oversee community banks; and (iv) brand awareness within the community banking industry and a strong reputation as a long-term partner that understands the needs of community banks to originate investment opportunities successfully.

- *Extended Investment Horizon.* Unlike private equity investors, we are not subject to standard periodic capital return requirements. These provisions often force private equity investors to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might prefer, potentially resulting in a lower overall return to investors. We believe that our flexibility to make investments with a long-term view, and without the capital return requirements of traditional private investment funds, provides us with the opportunity to generate attractive returns on invested capital.

Targeted Investment Characteristics

Our business strategy focuses on minimizing risk by using a disciplined underwriting process in providing capital to community banks. We expect to continue to focus on investing in community banks that exhibit the following characteristics:

- *Experienced Management.* We seek to invest in community banks with management teams or sponsors that are experienced in running local banking businesses and managing risk. We seek community banks that have a particular market focus, expertise in that market and a track record of success. Further, we actively seek to invest in banks with senior management teams with significant ties to their local communities.

- *Stability of Earnings.* We seek to invest in community banks with the potential to generate stable cash flows over long periods of time, and therefore we presently seek out institutions that have a defined lending strategy and predictable sources of interest revenues, stable sources of deposits and predictable expenses.

- *Stability of Market.* We seek to invest in community banks whose core business is conducted in one or more geographic markets that have sustainable local economies. The market characteristics we seek include stable or growing employment bases and favorable long-term demographic trends, among other characteristics.

- *Growth Opportunities.* We seek to invest in healthy community banks headquartered in markets which provide significant organic growth opportunities or headquartered in highly fragmented markets where industry consolidation is likely providing the opportunity for community banks to grow through acquisitions of smaller competitors.

- *Strong Competitive Position.* We focus on community banks that have developed strong market positions within their respective markets and that are well positioned to capitalize on growth opportunities. We seek to invest in companies that demonstrate competitive advantages that should help to protect and potentially expand their market position and profitability. Typically, we do not expect to invest in newly organized institutions or community banks having highly speculative business plans.

- *Visibility of Exit.* When investing in common equity, we seek investments that we expect to result in an exit opportunity. Exits may come through the conversion of an investment into public shares; an initial public offering of shares by the bank; the sale of the bank; or the repurchase of shares by the bank or another financial investor.

Investments

We primarily invest in securities issued by public and privately held community banks, initially in amounts generally ranging between approximately $3 million to $20 million (unless our investment size is otherwise constrained or expanded by applicable law, rule or regulation). We have an existing pipeline of potential investments that meet our criteria, consisting primarily of preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity. We invest in accordance with our Advisor s investment policy in primarily the following assets:

TARP Assets: We own and may continue to own one or more portfolios of perpetual preferred stock issued by community banks under the U.S. Department of the Treasury s (U.S. Treasury) Troubled Asset Relief Program (TARP) Capital Purchase Plan. Under TARP, more than 450 community banks issued in excess of $10 billion of perpetual preferred stock in 2008 and 2009 (TARP Preferred) and approximately $2.2 billion in TARP Preferred issued by approximately 121 institutions. We intend to purchase these securities through secondary market transactions.

Preferred and Common Equity Assets: We continue to receive capital requests from numerous community banks regarding potential investments initially in amounts ranging from approximately $3 million to $20 million per investment. Preferred stock may have fixed or variable dividend rates, which may be subject to rate caps and collars. In connection with our investments, we may also receive options or warrants to purchase common or preferred equity.

Regardless of the type of capital security, we intend to invest the majority of our portfolio in institutions that are currently paying dividends or interest on their securities, that our Advisor believes have the ongoing ability to pay dividends or interest on their securities, and that are not currently a party to any regulatory enforcement actions that would limit or hinder their ability to pay dividends or interest. While we do not intend to invest a significant portion of our funds in institutions that do not meet these criteria, we may invest in institutions that our Advisor believes have the ability to emerge from such conditions, pay any accrued interest or cumulative unpaid dividends at emergence and begin the normalized payment of interest or dividends in arrears and/or as frequently stipulated by the issuance in question.

From time to time, we may also invest in Tier 2 qualifying debt securities (long term subordinated debt securities) and other debt securities or hybrid instruments issued by community banks or their holding companies. Additionally, we may invest in Tier 1 qualifying debt securities. These debt securities may have fixed or floating interest rates.

Regulatory capital regulations adopted in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the Third Basel Accord of the Basel Committee on Banking Supervision (Basel III) require banks to increase their Tier 1 capital and reduce their leverage ratios. These regulations also generally require that, in order to qualify as Tier 1 capital, preferred stock must be non-cumulative in nature (only TARP Preferred and certain securities issued by small bank holding companies, defined as holding companies with less than $500 million in consolidated assets, may be cumulative and qualify as Tier 1 capital). We expect that the majority of the new issue preferred stock in which we invest will be non-cumulative. While these existing and any future regulatory capital requirements may cause community banks to raise additional capital, these regulations may make some community banks less likely to pay dividends on preferred stock and common stock.

In addition, future changes in regulatory capital regulations may negatively or positively affect our investments and may subject us to additional pre-payment and capital redeployment risk.

Most of our assets are and, we expect, will be illiquid, and their fair value may not be readily determinable. Accordingly, there can be no assurance that we will be able to realize the value at which we carry such assets if we need to dispose of them. As a result, we can provide no assurance that any given asset could be sold at a price equal to the value at which we carry it. We believe that a majority of the investments we will make will not be rated by a nationally recognized statistical rating organization (NRSRO). If such investments were rated by a NRSRO, we believe they may be rated below investment grade.

Collateralized Loan Obligations and other Structured Securities. A CLO is a special purpose vehicle that is formed to finance a pool of loans which meet predefined investment criteria. It generally raises capital by issuing both debt and equity securities. Typically, a CLO will issue various classes, or tranches, of debt broadly categorized as senior and subordinate debt tranches as well as an equity tranche.

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CLO securities receive cash flows generated by underlying collateral according to a defined payment waterfall. Principal and interest payments to CLO debt tranches are typically paid sequentially, with senior debt tranches receiving cash flows prior to subordinate debt tranches. The risk and return to CLO debt tranches vary depending upon each tranche s right to collect cash flows generated by the underlying collateral. CLO debt tranches are generally rated, with ratings ranging from the highest investment grade to below investment grade, with coupons commensurate with the risk of each tranche. CLO debt tranches are also generally structured with covenants which, if violated, divert cash flows to the senior tranches prior to making any interest or principal payments to subordinate debt tranches or equity tranches.

Unlike debt securities issued by CLOs, CLO equity securities are not rated and do not have contractually stated payment schedules. At origination, the weighted average interest rate of all CLO debt tranches is generally lower than the weighted average interest earned by a CLO s underlying collateral, resulting in an interest rate spread. CLO equity securities receive residual cash flows, or the interest spread, generated by the underlying collateral after obligated payments for CLO debt securities and other expenses of the CLO have been made. CLO equity tranches typically comprise approximately 10%-20% of total capital raised by a CLO.

CLO equity tranches can generate relatively front-end loaded cash flows. CLO equity cash flows are also highly dependent on the credit performance of their underlying collateral pool. If loans within the collateral pool default, the reduced amount of performing collateral leads to lower cash flows available for distribution through CLO waterfalls, resulting in lower residual cash flows available for equity tranches. Residual cash flows are also impacted by changes in portfolio spreads for CLO collateral. Declines in spreads on newly issued collateral during the reinvestment period result in lower residual cash flows available for equity tranches.

On October 15, 2015, we purchased $45.5 million of preferred shares (Preferred Shares) issued by Community Funding CLO, Ltd. (Community Funding). Community Funding is a bank credit collateralized loan securitization that issued an aggregate of $250.5 million in notes and equity including $205.0 million of Class A Notes rated A3 by Moody Investors Service secured by the assets of Community Funding, (Class A Notes) and $45.5 million in Preferred Shares. The transactions were executed through a private placement of an aggregate of $205 million of Class A Notes rated A3 by Moody s Investors Service and $45.5 million of Preferred Shares. In partial consideration for loans transferred to Community Funding, we retained all of the Preferred Shares. All of the securities are scheduled to mature in November 2027.

Class A Notes are primarily secured by a collateral pool consisting of unsecured, subordinated loans made to (and, to a lesser extent, unsecured, subordinated debentures and notes issued by) FDIC-insured community banks or savings institutions or their respective holding companies (each such entity issuing such loans, debentures or notes, an Obligor). Each such subordinated loan will be subordinated to senior debt of, and demand deposits (if any) at, the related Obligor, but senior to trust preferred obligations, preferred stock (including perpetual preferred stock issued by such Obligor pursuant to the U.S. Treasury s Troubled Asset Relief Program (TARP) Capital Purchase Plan and the Small Business Lending Fund), and common stock issued by the related Obligor. These Obligors are generally not publicly rated by any rating agency. The loans may have greater credit and liquidity risks than investment-grade corporate obligations that are publicly rated. The collateral are not deposits and are not insured by the FDIC or any government agency or instrumentality thereof. The Community Funding s collateral pool was purchased through the application of the net proceeds of the sale of the Class A Notes. Following the closing date, the collateral pool owned by Community Funding will be static, and there will be no replacement collateral included in the collateral pool; however, removal of certain collateral will be permitted under certain limited circumstances.

The interest rate payable on Class A Notes is (i) for each interest accrual period during the period from and including October 15, 2015 to but excluding the payment date in November 2020, 5.75%, and (ii) for each interest accrual period thereafter, 6.40%. Preferred shares do no bear a stated rate of interest but will be entitled to receive distributions on each payment date solely to the extent of excess interest proceeds and/or principal proceeds, if any.

Community Funding has retained StoneCastle Investment Management, LLC (the Servicer), an affiliate of our Adviser, to perform certain administrative functions on behalf of Community Funding pursuant to a servicing agreement dated October 15, 2015 (the Servicing Agreement). Pursuant to the terms of the Servicing Agreement, the Servicer, among other things, monitors and services Community Funding s collateral, provides to the Community Funding s collateral administrator and administrative agent certain information and reviews the reports prepared pursuant to the indenture relating to the Class A Notes. Under the terms of the Servicing Agreement, Servicer is entitled to a fee in an amount equal to 0.10% per annum of the sum of (a) the aggregate principal balance of the collateral obligations (excluding any defaulted obligations), (b) the aggregate outstanding principal balance of defaulted obligations and (c) without duplication, the amounts on deposit representing principal proceeds. This fee is paid directly by Community Funding to the Servicer. The Servicer has agreed to remit its fees received under the Servicing Agreement to us so long as we continue to hold all of the Preferred Shares of Community Funding.

Prior to the closing date of the transaction, the Servicer advised Community Funding with respect to the selection and acquisition of the collateral. Such loans were selected in accordance with the criteria set forth in the documents governing the Community Funding transaction. These are primarily objective requirements determined by the constraints of the market for collateralized debt obligations, and are generally designed to comply with regulations governing commercial lending and similar financing activities in the United States and the requirements of Rule 3a-7 under the 1940 Act.

The Preferred Shares issued by Community Funding to us are limited recourse, unsecured obligations of Community Funding payable solely from payments made under the portfolio loans and other assets held by Community Funding and, in the event of a portfolio loan event of default, from the proceeds of any liquidation of the collateral underlying such portfolio loans. Additionally, for as long as the Class A Notes remain outstanding, holders of the Preferred Shares will not generally be entitled to exercise remedies under the indenture. As an unsecured class of securities, the interests and rights of holders of Community Funding s Preferred Shares in and to the portfolio loans and other assets owned by Community Funding are subject to the prior claims of secured creditors of Community Funding and are potentially subject to or will rank equally with the claims of other unsecured creditors of Community Funding.

Preferred Shares of Community Funding held by us are subordinated in right of payment on each payment date to prior payments on the Class A Notes and to certain amounts payable by Community Funding as administrative expenses, including the fees paid to the Servicer under the Servicing Agreement, and to the claims of other unsecured creditors of Community Funding.

Community Funding may only make payments on such securities to the extent permitted by the payment priority provisions of the indenture governing the notes, which generally provides that principal payments on the Preferred Shares may not be made on any payment date unless all amounts owing under the Class A Notes are paid in full. In addition, if Community Funding does not meet the coverages test set forth in the documents governing the Community Funding transaction, cash would be diverted from the Preferred Shares to first pay the Class A Notes in amounts sufficient to cause such tests to be satisfied. Therefore, to the extent that any losses are suffered by noteholders or preferred shareholders as a result of losses on the portfolio loans and other assets owned by Community Funding, such losses will be borne in the first instance by the holders of the Preferred Shares, then by the holders of the Class A Notes.

We believe that debt securitizations benefit from internal credit enhancement, meaning that holders of more senior classes of notes issued by Community Funding benefit from the terms of subordination applicable to the more junior classes of notes issued by Community Funding. Thus, Class A Notes enjoy the benefit of credit enhancement effectively provided by the subordination provisions of the Preferred Shares.

The documents governing the Community Funding transaction expressly provide that we are not, and cannot be held, liable for any shortfall in payments or any defaults on any of the classes of notes issued by Community

Funding in connection with the securitization because such obligations are the obligations of Community Funding only, and the sole recourse for such obligations is to the collateral owned by Community Funding rather than our assets. Under the terms of the documents related to the Community Funding transaction, recourse to us is limited and generally consistent with the terms of other similarly structured finance transactions.

We believe that debt securitizations such as Community Funding enable us to deploy our capital efficiently and to increase our capacity to provide financing to community banks.

As of December 31, 2015, Community Funding held 35 loans with a total fair value of $44.9 million. The pool of loans in Community Funding must meet certain requirements, including asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements.

Convertible Securities: We may invest in convertible securities. Convertible securities include any debt securities or preferred stock which may be converted into common stock or which carry the right to purchase common stock. Generally, convertible securities entitle us to exchange the securities for a specified number of shares of common stock, usually of the same company, at specified prices within a certain period of time.

The terms of any convertible security determine its ranking in a company s capital structure. In the case of subordinated convertible debentures, the holders claims on assets and earnings are subordinated to the claims of other creditors, and are senior to the claims of preferred and common shareholders. In the case of convertible preferred stock, the holders claims on assets and earnings are subordinated to the claims of all creditors and are senior to the claims of common shareholders.

Convertible securities have characteristics similar to both debt and equity securities. Due to the conversion feature, the market value of convertible securities tends to move together with the market value of the underlying common stock. As a result, selection of convertible securities, to a great extent, is based on the potential for capital appreciation that may exist in the underlying stock. The value of convertible securities is also affected by prevailing interest rates, the credit quality of the issuer, and any call provisions. In some cases, the issuer may cause a convertible security to convert to common stock. In other situations, it may be advantageous for us to cause the conversion of convertible securities to common stock. If a convertible security converts to common stock, we may hold such common stock in our portfolio even if we would not invest in the common stock of such isser.

We may invest in contingent securities structured as contingent convertible securities also known as CoCos . Contingent convertible securities are typically issued by non-U.S. banks and are designed to behave like bonds in times of economic health yet absorb losses when a pre-determined trigger event occurs. A contingent convertible security is a hybrid debt security either convertible into equity at a predetermined share price or written down in value based on the specific terms of the individual security if a pre-specified trigger event occurs (the Trigger Event). Unlike traditional convertible securities, the conversion of a contingent convertible security from debt to equity is contingent and will occur only in the case of a Trigger Event. Trigger Events vary by instrument and are defined by the documents governing the contingent convertible security. Such Trigger Events may include a decline in the issuer s capital below a specified threshold level, increase in the issuer s risk weighted assets, the share price of the issuer falling to a particular level for a certain period of time and certain regulatory events.

Contingent convertible securities are subject to the credit, interest rate, high yield security, foreign security and markets risks associated with bonds and equities, and to the risks specific to convertible securities in general. Contingent convertible securities are also subject to additional risks specific to their structure including conversion risk. Because Trigger Events are not consistently defined among contingent convertible securities, this risk is greater for contingent convertible securities that are issued by banks with capital ratios close to the level specified in the Trigger Event. In addition, coupon payments on contingent convertible securities are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no remedies to require re-instatement of coupon payments or payment of any past missed payments. Coupon payments may also be subject to approval by the issuer s regulator and may be suspended in the event there are insufficient distributable reserves. Due to uncertainty surrounding coupon payments, contingent convertible securities may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

Contingent convertible securities typically are structurally subordinated to traditional convertible bonds in the issuer s capital structure. In certain scenarios, investors in contingent convertible securities may suffer a loss of capital ahead of equity holders or when equity holders do not. Contingent convertible securities are also subject to extension risk. Contingent convertible securities are perpetual instruments and may only be callable at predetermined dates upon approval of the applicable regulatory authority. There is no guarantee that we will receive return of principal on contingent convertible securities. Convertible contingent securities are a newer form of instrument and the regulatory environment for these instruments continues to evolve. Because the market for contingent convertible securities is evolving, it is uncertain how the larger market for contingent convertible securities would react to a Trigger Event or coupon suspension applicable to a single issuer.

The value of contingent convertible securities is unpredictable and will be influenced by many factors such as: (i) the creditworthiness of the issuer and/or fluctuations in such issuer s applicable capital ratios; (ii) supply and demand for contingent convertible securities; (iii) general market conditions and available liquidity; and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

Leverage

We have borrowed funds and expect to continue to borrow to fund our investment activities, which is also known as utilizing leverage. While we may enter into borrowing arrangements with banks or other lenders that are unsecured, we currently fund a portion of our investments with a secured debt facility. We will operate with leverage through recourse and non-recourse collateralized financings, private or public offerings of debt, warehouse facilities, secured and unsecured bank credit facilities, reverse repurchase agreements and other borrowings. Additionally, we may create one or more wholly-owned special purpose subsidiaries to facilitate secured borrowing structures.

We have borrowed to fund a portion of our assets and intend to limit our overall borrowing to meet the limitations set forth under the Investment Company Act. Accordingly, we will limit (i) leverage from debt securities to one-third of our total assets, including the proceeds of such borrowings, at the time such borrowings are calculated and (ii) the total aggregate liquidation value and outstanding principal amount of any preferred stock and debt securities to 50% or less of the amount of our total assets (including the proceeds of debt securities and preferred stock) less liabilities and indebtedness not represented by our debt securities and preferred stock, each in accordance with the requirements of the Investment Company Act. Although we have no present intention to do so, we may also operate with leverage by issuing preferred stock.

We seek a leverage ratio, based on a variety of factors including market conditions and our Advisor s market outlook, where the rate of return, net of applicable expenses, on the Company s investment portfolio investments purchased with leverage exceeds the costs associated with such leverage.

As of December 31, 2015, we incurred leverage through borrowings under a revolving credit facility that permitted the Company to borrow up to $70 million as of that date of which $25 million has been committed and drawn. Our asset coverage ratio as of December 31, 2015 was 663%. See Leverage Effects of Leverage for a description of our credit agreement with a syndicate of banks led by Texas Capital Bank, N.A.

Following the completion of the offering, we may increase the amount of leverage outstanding. We may incur additional borrowings in order to maintain our desired leverage ratio of 30%. Leverage creates a greater risk of loss, as well as a potential for more gain, for the common stock than if leverage was not used. Interest on borrowings may be at a fixed or floating rate, and the interest at a floating rate generally will be based on short-term rates. The costs associated with our use of leverage, including the issuance of such leverage and the payment of dividends or interest on such leverage, will be borne entirely by the holders of common stock. As long as the rate of return, net of our applicable expenses, on our investment portfolio investments purchased with leverage exceeds the costs associated with such leverage, we will generate more return or income than will be needed to pay such costs. In this event, the excess will be available to pay higher dividends to holders of common stock. Conversely, if the return on such assets is less than the cost of leverage and our other expenses, the return to the holders of our common stock will diminish. To the extent that we use leverage, the NAV and market price of our common stock and the yield to holders of common stock will be more volatile. Our leveraging strategy may not be successful. Our Advisor s fee is based on Managed Assets , which means our total assets (including cash and cash equivalents and any assets purchased with or attributable to any borrowed funds). Because our Advisor s fee is based on Managed Assets, our Advisor s fee will be higher if we utilize leverage. See Risks Related to Our Use of Leverage.

In order to reduce the interest rate and credit risks associated with our investments and use of leverage, we expect to utilize derivatives including interest rate swaps, caps, floors and forward transactions and credit default swaps, total return swaps and credit-linked notes. In addition, we may utilize futures and warrants in order to hedge against changes in market prices of the securities of the publicly-traded banks in which we invest.

Conflicts of Interest

Our Advisor is subject to certain conflicts of interest in our management. These conflicts arise primarily from the involvement of our Advisor and its affiliates in other activities that may conflict with our activities. Our Advisor and its affiliates engage in a broad spectrum of activities. In the ordinary course of their business activities, they may engage in activities where their interests or the interests of their clients may conflict with our interests and the interest of the holders of our common stock. Other present and future activities of our Advisor and its affiliates may give rise to additional conflicts of interest which may have a negative impact on us and the holders of our common stock.

Our Advisor s compliance department and legal department oversee its conflict-resolution system. This system emphasizes the principle of fair and equitable allocation of appropriate opportunities to our Advisor s clients over time. As a result of our Advisor s allocation policies, we may not be able to invest in all opportunities that are appropriate for us and this may have the effect of reducing our potential earnings. Although our Advisor has agreed with us that it will allocate opportunities among its clients pursuant to its written policies and procedures, there is no assurance that these policies and procedures will work as intended or that we will be allocated our fair share of investment opportunities over time.

Corporate Information

Our principal executive offices are located at 152 West 57th Street, 35th Floor, New York, New York 10019. Our telephone number is (212) 354-6500.

Advisor Information

The offices of our Advisor are located at 152 West 57th Street, 35th Floor, New York, New York 10019. The telephone number for our Advisor is (212) 354-6500.

Who May Want to Invest

Investors should consider their investment goals, time horizons and risk tolerance before investing in our securities. An investment in our securities is not appropriate for all investors, and our securities are not intended to be a complete investment program. Our securities are designed as a long-term investment and not as a trading vehicle. Our securities may be an appropriate investment for investors who are seeking:

- potential recurring dividend and interest cash flow;
- an investment company focused primarily on the community bank sector;
- an investment company whose capital structure may be significantly leveraged;
- an investment company that will invest in preferred equity, subordinated debt, convertible securities and common equity;
- an investment company that may be suitable for retirement or other tax exempt accounts; and
- professional securities selection and active management by an experienced advisor.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in shares of our common stock will bear, directly or indirectly. Other expenses are estimated and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses. **We caution you that certain of the indicated percentages in the table below indicating annual expenses are estimates and may vary.**

Stockholder Transaction Expenses (as a percentage of offering price):	
Sales Load (1)	4.00%
Offering Expenses (2)	0.25%
Dividend Reinvestment Plan Expenses(3)	None
Total Stockholder Transaction Expenses	**4.25%**
Annual Expenses (as a percentage of net assets attributable to common stock):	
Management Fees(4)	2.53%
Interest payments on borrowed funds(5)	1.47%
Other Expenses (estimated for the current fiscal year)(6)	1.28%
Total Annual Expenses	**5.28%**

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(1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of total offering expenses (which may include offering expenses borne by third parties on our behalf), the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in Other Expenses. For more details about the plan, see Dividend Reinvestment Plan.

(4) For the purposes of calculating our expenses, we have assumed the maximum contractual management fee of 1.75% of Managed Assets. See Management Management Agreement.

(5) We entered into a credit facility on June 9, 2014. Interest expense assumes that leverage will represent approximately 30% of our Managed Assets (as defined under Management Management Agreement Management Fee) and charge interest or involve payment at a rate set by an interest rate transaction at an annual average rate of approximately 3.38%. We have assumed for purposes of these expense estimates that we will utilize leverage for the entire year.

(6) Pursuant to the management agreement, our Advisor furnishes us with office facilities and clerical and administrative services necessary for our operation (other than services provided by our custodian, accounting agent, administrator, dividend and interest paying agent and other service providers). We bear all expenses incurred in our operations, and we will bear the expenses related to any future offering. Other Expenses above includes all such costs not borne by our Advisor, which may include but are not limited to overhead costs of our business, commissions, fees paid to CAB Marketing, LLC and CAB, L.L.C., subsidiaries of the ABA, as part of our exclusive investment referral and endorsement relationships with those subsidiaries, fees and expenses connected with our investments and

auditing, accounting and legal expenses. See Management Management Agreement Payment of Our Expenses. Other Expenses also includes Acquired Fund fees and expenses, which expenses are estimated to not exceed one basis point of our average net assets for the current fiscal year.

Example

The following example demonstrates the hypothetical dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon the assumption that our annual operating expenses remain at the levels set forth in the table above and that the annual return on investments before fees and expenses is 5%.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return:	$ 93	$ 194	$ 293	$ 541

The purpose of the table and example above is to assist you in understanding the various costs and expenses that an investor in any future offering will bear directly or indirectly. The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.

Moreover, while the example assumes a 5% annual return, our performance will vary and may result in a return greater or less than 5%. In addition, while the example assumes reinvestment of all distributions at NAV, participants in our dividend reinvestment plan may receive common stock valued at the market price in effect at that time. This price may be at, above or below NAV. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

The Other Expenses shown in the table and related footnote above are based on estimated amounts for our current fiscal year of operation unless otherwise indicated. If we issue fewer shares of common stock, all other things being equal, certain of these percentages would increase. For additional information with respect to our expenses, see Management and Dividend Reinvestment Plan.

FINANCIAL HIGHLIGHTS

General

The financial highlights table below is intended to help you understand the Company s financial performance. The table sets forth selected data for a share of common stock outstanding for each period presented. The information for the fiscal year ended December 31, 2015 has been audited by Tait, Weller & Baker LLP, the Company s independent registered public accounting firm. The information for the fiscal year ended December 31, 2014 was audited by the Company s former independent registered public accounting firm. The information for the fiscal period ended December 31, 2013 contained in the table was audited by a second prior independent registered public accounting firm. Audited financial statements for the Company for the fiscal year ended December 31, 2015 are included in the Annual Report to stockholders. The Annual Report to stockholders is incorporated by reference into the Statement of Additional Information and is available upon request by calling (212) 354-6500.

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014	For the Period Ended December 31, 2013
Per share operating performance			
Net Asset value, beginning of period	**$ 21.86**	**$ 23.07**	**$ 23.49(1)**
Net investment income/(loss)(2)	1.44	0.84	(0.09)
Net realized and unrealized gain (loss) on investments(2)	(0.17)	0.01	(0.05)
Offering costs(2)		(0.06)	
Total from investment operations	**1.27**	**0.79**	**(0.14)**
Less distributions to shareholders			
From net investment income	(1.29)	(1.22)	(0.28)
Return of capital	(0.22)	(0.78)	
Total distributions	**(1.51)**	**(2.00)**	**(0.28)**
Net asset value, end of period	**$ 21.62**	**$ 21.86**	**$ 23.07**
Per share market value, end of period	**$ 16.30**	**$ 19.47**	**$ 24.56**
Total investment return based on market value(3)	**(8.68)%**	**(13.59)%**	**(0.62)%***
Ratios and supplemental data			
Net assets end of period (in millions)	$ 140.8	$ 142.1	$ 108.3
Ratios (as a percentage of average net assets):			
Expenses before waivers(4)	4.87%	3.73%	3.04%**
Expenses after waivers(5)	4.50%(6)	3.73%	3.04%**
Net investment income/(loss)(7)	6.56%	3.41%	(3.00)%**
Portfolio turnover rate	101%	30%	81%*

(1) Net asset value at beginning of period reflects a deduction of $1.51 per share of sales load and offering expense from the initial public offering price of $25 per share.

(2) The net investment income, unrealized gain/(loss) on investments and offering costs per share was calculated using the average shares outstanding method.

(3) Based on share market price and reinvestment of distributions at the price obtained under the Dividend Reinvestment Plan. Total return does not include sales load and offering expenses.

(4) Ratio of expenses before waivers to managed assets equals 3.62% for the year ended December 31, 2015.

(5) Excluding interest expense, net operating expenses would have been 3.54% and 3.33% for the years ended December 31, 2015 and 2014, respectively.

(6) Ratio of expenses after waivers to managed assets equals 3.35%.

(7) Ratio of net investment income to managed assets equals 4.88% for the year ended December 31, 2015.

(8) Calculated by subtracting the Company s total liabilities (excluding the loan) from the Company s total assets and dividing that amount by the loan outstanding in 000 s.

* Not-annualized.

** Annualized.

The Company commenced operations on November 13, 2013.

Senior Securities

At December 31, 2015, we had loans outstanding under the Credit Facility of $25 million. Information in the table below has been audited by Tait, Weller & Baker, LLP the Company s independent registered public accounting firm. The Company did not have any senior securities outstanding prior to March 27, 2014. Borrowings under the Credit Facility for the fiscal years ended December 31, 2015, 2014 and 2013 were as follows:

Class and Year (a)	Total Amount Outstanding (b)	Asset Coverage Per Unit (d)	Average Market Value (excludes Bank Loans)
Credit Facility			
Fiscal 2013 (as of December 31, 2013)	N/A(c)	N/A(c)	N/A(c)
Fiscal 2014 (as of December 31, 2014)	$ 22,500,000	$ 7,317	N/A
Fiscal 2015 (as of December 31, 2015)	$ 25,000,000	$ 6,631	N/A

(a) On March 27, 2014, the Company entered into a Revolving Credit Agreement (the Credit Agreement) which has an initial aggregate principal amount of up to $45,000,000. The Credit Facility has a stated maturity date of June 9, 2019. The interest rate applicable to borrowings thereunder is generally LIBOR plus an applicable margin of 2.85%. The Credit Facility s commitment was increased to $70 million on January 16, 2015.

(b) Total amount of each class of senior securities outstanding at the end of the period.

(c) No credit facility was in place in 2013. The credit facility was put in place during 2014. See (a).

(d) The asset coverage ratio for senior securities representing indebtedness is calculated as our consolidated total assets, less all consolidated liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage Per Unit.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

The matters discussed under Prospectus Summary, Risk Factors, Distribution Policy, The Company and elsewhere in this prospectus, as well as in future oral and written statements by our management, that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties that could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, targets, projec believes, estimates, predicts, potential or continue or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments and achieve certain levels of return, the availability to us of additional capital and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. Statements regarding the following subjects are forward-looking by their nature:

- our business strategy;
- our ability to use effectively the proceeds of any future offering and manage our anticipated growth;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to make, future distributions;
- our ability to compete in the marketplace;
- market trends;
- projected capital and operating expenditures, including fees paid to our affiliates; and
- the impact of technology on our operations and business.

Our beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this prospectus, including those set forth under the sections captioned Risk Factors and The Company;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in the sectors in which we invest, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates relating to our investments;
- changes in applicable laws, rules or regulations;

- our ability to continue to meet the requirements for treatment as a RIC;
- increased prepayments relating to our investments; and
- the degree and nature of our competition.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. We are not obligated, and do not undertake an obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

TRADING AND NET ASSET VALUE INFORMATION

The following table sets forth, for the quarters indicated, the highest and lowest prices on the NASDAQ Global Select Market per share of common stock, and the NAV per share and the premium to or discount from NAV, on the date of each of the high and low market prices. The table also sets forth the number of Shares traded on the NASDAQ Global Select Market during the respective quarters.

	NAV per Share on Date of Market Price(1)		NASDAQ Global Select Market Price Per Share(2)		Premium/(Discount) to NAV on Date of Market Price(3)		
During Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**	**Trading Volume(4)**
December 31, 2013							
March 31, 2014	$ 22.69	$ 22.69	$ 27.67	$ 23.90	21.9%	5.3%	1,363,942
June 30, 2014	$ 22.31	$ 22.31	$ 26.55	$ 24.50	19.0%	9.8%	878,768
September 30, 2014	$ 22.08	$ 22.08	$ 27.23	$ 24.71	23.3%	11.9%	749,344
December 31, 2014	$ 21.86	$ 21.86	$ 25.19	$ 18.16	15.2%	(16.9)%	2,512,771
March 31, 2015	$ 21.90	$ 21.90	$ 22.15	$ 17.51	1.1	(20.0)	1,557,520
June 30, 2015	$ 22.05	$ 22.05	$ 18.36	$ 16.05	(16.7)	(27.2)	1,880,330
September 30, 2015	$ 22.09	$ 22.09	$ 17.89	$ 14.85	(19.0)	(32.8)	1,177,393
December 31, 2015	$ 21.62	$ 21.62	$ 18.12	$ 15.82	(16.19)	(26.83)	1,531,195

(1) Based on our computations.

(2) Source: The NASDAQ Global Select Market.

(3) Based on our computations.

(4) Source: Bloomberg.

On December 31, 2015, our per share NAV was $21.62 and per share market price was $16.30, representing a (24.61)% discount below such NAV.

We cannot predict whether our common stock will trade at a premium or discount to NAV in the future. Our issuance of common stock may have an adverse effect on prices for our common stock in the secondary market by increasing the number of common shares available, which may put downward pressure on the market price for our common stock.

Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a discount). The possibility that our shares will trade at a discount from NAV is a risk separate and distinct from the risk that our NAV will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our shares are not redeemable at the request of stockholders. We may repurchase our shares in the open market or in private transactions, although we have no present intention to do so. Stockholders desiring liquidity may, subject to applicable securities laws, trade their shares on the NASDAQ Global Select or other markets on which such shares may trade at the then current market value, which may differ from the then current NAV.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use substantially all of the proceeds from a sale of our securities, net of expenses, for general corporate purposes, which may include, making investments in accordance with our investment objective and policies. We anticipate that the proceeds will be invested promptly as investment opportunities are identified, depending on market conditions and the availability of appropriate securities, and it is anticipated to take not more than approximately three to six months from the closing of any offering. Pending investment, the proceeds will be invested in short-term cash-equivalent instruments. Although we anticipate that a substantial portion of the proceeds from any offering will be invested pursuant to our investment objective and policies, some of the proceeds may be used to make capital gain distributions required to maintain our tax status as a RIC.

DISTRIBUTION POLICY

We intend to pay quarterly distributions to our stockholders in an amount, and on a timely basis, sufficient to obtain and maintain our status as a RIC; investment company taxable income includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses, reduced by deductible expenses.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC. For federal income tax purposes, as a RIC we are required to distribute substantially all of our net investment income each year both to avoid federal income tax on our distributed income and to avoid a potential excise tax. If our ability to make distributions on our common stock is limited, such limitations could, under certain circumstances, impair our ability to maintain a qualification for taxation as a RIC, which would have adverse consequences for our stockholders. See U.S. Federal Income Tax Considerations.

We will pay all dividends at the discretion of our board of directors, and the dividends we pay will depend on a number of factors, including:

- distribution requirements under the Investment Company Act and to maintain our status as a RIC.
- our financial condition; general business conditions; actual results of operations;
- the timing of the deployment of our capital; debt service requirements;
- availability of cash distributions;
- our operating expenses;

- any contractual, legal and regulatory restrictions on the payment of distributions by us to our stockholders including
- debt covenants imposed by lenders to the Company; and
- other factors our board of directors in its discretion may deem relevant.

If a stockholder s common stock is registered directly with us or with a brokerage firm that participates in our dividend reinvestment plan, distributions will be automatically reinvested in additional common stock under the dividend reinvestment plan unless a stockholder elects to receive distributions in cash. If a stockholder elects to receive distributions in cash, payment will be made by check. See Dividend Reinvestment Plan.

THE COMPANY

StoneCastle Financial Corp. was organized on February 7, 2013, as a Delaware corporation established to continue and expand the business of StoneCastle Partners, which commenced operations in 2003, and makes investments in community banks located throughout the United States. Our investment objective is to provide stockholders with current income and, to a lesser extent, capital appreciation. We attempt to achieve our investment objectives through preferred equity, subordinated debt, convertible securities and common equity investments in the U.S. community banking sector. We may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies. Together with banks, we refer to these types of companies as banking-related and intend, under normal circumstances, to invest at least 80% of the value of our net assets plus the amount of any borrowings for investment purposes in such businesses.

We seek to enhance our returns through the use of warrants, options and other equity conversion features. The banks in which we invest may include, as part of the consideration of any new issuance of capital stock to us, a grant of warrants or options to increase our investment in such banks or options to convert our investment from a preferred security to common equity in the event we believe we can increase the returns for our investors through such conversion.

If we enter into derivatives for the purpose of hedging, and such derivatives constitute a senior security under the Investment Company Act, the rules thereunder or applicable guidance from the SEC and its staff, we intend to include that position in our leverage calculation. Warrants, options and conversion features attached to preferred stock investments when we purchase them constitute assets, not liabilities, and we would not expect to consider such assets to constitute a senior security under the Investment Company Act.

Additionally, we may take temporary defensive positions that are inconsistent with our investment strategy in attempting to respond to adverse market, economic, political or other conditions. If we do so, we may not achieve our investment objective. We may also choose not to take defensive positions.

We have elected to be treated, and intend to comply with the requirements to qualify annually, as a RIC.

We seek to structure our investments to avoid being regulated by various banking authorities. Therefore, we do not currently expect to be regulated by any state or federal banking regulatory bodies and expect to have significant flexibility with respect to the products we can offer our community banking clients and the manner in which we operate. In the future, we may be subject to such regulation if regulations change or if certain regulated institutions are deemed to control us. Further, while we have no current intent to do so, we may become subject to such federal and state banking regulations if we change our business strategy in a manner that subjects us to such regulation. See Risk Factors Bank Regulatory Risk.

Our Advisor

StoneCastle Asset Management LLC, an SEC-registered investment advisor dedicated to the community banking sector that was formed on November 14, 2012, manages our assets. Our Advisor is registered with the SEC under the Investment Advisers Act. Our Advisor is staffed with investment professionals from its affiliates, which collectively manage one of the largest portfolios of assets dedicated to the U.S. community banking sector, with over a ten-year history of investing in trust preferred capital securities issued by, or, other obligations of, community, regional and money center banks. As of December 31, 2015, StoneCastle Partners and its subsidiaries managed almost $11.0 billion of assets focused on community banks, including approximately $1.5 billion of capital invested in more than 250 banking institutions and over $9.5 billion of institutional cash in over 600 banks. Our Advisor s investment philosophy is grounded in disciplined, fundamental, bottom-up credit and investment analysis. We intend to continue to use our Advisor s existing community banking infrastructure to identify attractive investment opportunities and to underwrite and monitor our investment portfolio.

Our Advisor is wholly-owned by StoneCastle Partners. StoneCastle Partners is managed by its two Managing Partners: Joshua S. Siegel (founder & CEO) and George Shilowitz (Managing Partner). Charlesbank Capital Partners, LLC, a leading private equity investment manager, and CIBC Capital, a subsidiary of Canadian Imperial Bank of Commerce, own minority interests in StoneCastle Partners.

Each of our Advisor s investment decisions is reviewed and approved for us by our Advisor s investment committee, which may also act as the investment committee for other investment vehicles managed by our Advisor and its affiliates. Our Advisor s two senior officers, Messrs. Siegel and Shilowitz, each have over twenty years of experience advising and investing in financial institutions, investing in financial assets and building financial services companies.

Our Advisor has entered into a staffing agreement with StoneCastle Partners and several of its affiliates. Under the staffing agreement, these companies make experienced investment professionals available to our Advisor and provide our Advisor access to the senior investment personnel of StoneCastle Partners and its affiliates. Our Advisor intends to capitalize on the significant deal origination, credit underwriting, due diligence, investment structuring, execution, portfolio management and monitoring experience of StoneCastle Partners investment professionals. Biographical information for key members of our Advisor s investment team is set forth below under Management Biographical Information. As our investment advisor, our Advisor is obligated to allocate investment opportunities among us and its other clients in accordance with its allocation policy; however, there can be no assurance that our Advisor will allocate such opportunities to us fairly or equitably in the short-term or over time.

Community Banking Sector Focus

We intend to pursue our investment objective by continuing to invest principally in public and privately-held community banks located throughout the United States. For the purpose of our investment objectives and this prospectus, we define community bank to mean banks, savings associations and their holding companies with less than $10 billion in consolidated assets that serve local markets. As of December 31, 2015, the community banking sector is a highly fragmented $3.0 trillion industry, comprised of over 6,100 banks located throughout the United States, including under-served rural, semi-rural, suburban and other niche markets. Community banks generally have simple, straight-forward business models and geographically concentrated credit exposure. Community banks typically do not have exposure to non-U.S. credit and are focused on lending to borrowers in their distinct communities. As a result, we believe that community banks frequently have a better understanding of the local businesses they finance than larger banking organizations. Many of these community banks are well established, having been in business on average for more than 75 years and have survived many economic cycles, including the most recent financial crisis. We expect to create a portfolio within the community bank market focused on the bank market, with an emphasis on community banks, through investments in numerous issuers differentiated by asset sizes, business models and geographies. To a lesser extent, we may also invest in similar securities of larger U.S. domiciled banks and companies that provide goods and/or services to banking companies.

Market Opportunity

We believe that the community banking sector is attractive due to the strong long-term performance of community banks and the general lack of investment competition from institutional investors. The Company was formed to invest in the ongoing capital needs of community banks. We believe that the environment for investing in community banks is attractive for the following reasons:

- *Long-Term Resiliency of Community Banks.* The community banking industry has a long history of resiliency and historically has exhibited a low rate of failure. According to data from the FDIC, since 1934, FDIC insured banks and thrifts have failed at an annual rate of 0.37%, with peak cycle one-year failure rates of 3.22% in 1989 (S&L crisis), 1.96% in 2010 (Great Recession) and 0.54% in each of 1937 and 1938 (Great Depression). We believe that these figures are comparable with Baa and Ba Moody s rated corporate bond default rates, which experienced an average annual default rate since 1920 of approximately 0.27% for Moody s Baa-rated corporate bonds and 1.07% for Ba-rated bonds, with the highest one year default rates of 1.99% and 11.69%, for Baa-rated and Ba-rated corporate bonds, respectively, as reported in Annual Default Study: Corporate Default and Recovery Rates, 1920-2013 released on February 28, 2014.

- *Greater Equity Cushions.* While community banks are generally subject to the same regulations as their larger competitors, community banks have historically maintained significantly larger amounts of equity capital. Given that community banks do not typically have access to different forms of capital from the public markets, most equity in community banks is comprised of common equity, a form considered of the highest quality by federal and state banking regulators. As of December 31, 2015, banks with less than $10 billion of assets maintained Tier 1 risk-based capital ratios 17% higher than banks with more than $10 billion of assets. Given that banks over $10 billion have 32% higher non-current loans to loans (1.96% vs. 1.49%), community banks generally have significantly better equity cushions than their larger competitors.

- *Large Fragmented Market.* Community banks collectively controlled nearly $3.0 trillion of financial assets as of December 31, 2015. Despite significant industry consolidation since 1980, as of December 31, 2015 there were still more than 6,100 FDIC-insured banks in the United States. As of such date, more than 98% of these banks had less than $10 billion of assets and many primarily service their local communities. We believe that the highly fragmented nature of the industry poses significant challenges for potential investors seeking to implement a diversified investment strategy.

- *Robust Demand for Capital.* Regulatory changes are requiring all banks to hold increased levels of capital. This requirement creates what we believe to be strong demand for capital in the form of preferred equity, subordinated debt, convertible securities and, to a lesser extent, common equity. Further, capital is needed to facilitate ongoing consolidation within the banking industry, including acquisitions of failed banks from the FDIC. Lastly, organic growth of well-positioned institutions also supports demand. Our Advisor estimates that the community banking sector will require more than $35 billion of capital over the next several years to facilitate (i) compliance with heightened regulatory capital ratios, (ii) acquisition of competitors and failed banks and (iii) organic asset growth. This estimate is in part based on the size of the trust preferred CDO market and the phase out of trust preferred securities from the definition of Tier 1 capital.

- *Constrained Supply of Capital.* We believe that the supply of new capital available to community banks is extremely constrained and will remain so for many years. We also believe that there are many community banks with well-established franchises and cash flow characteristics that are not attracting capital from private equity or other institutional investors because: (i) they are perceived by such investors as risky due to their size; (ii) the companies are located in rural or niche markets that are unfamiliar to institutional investors; or (iii) the investments in these companies are too small given (a) the size of the target companies and (b) limitations on majority ownership dictated by certain banking regulations. We believe that these companies represent attractive investment candidates for us. We believe that this lack of institutional investor interest and the inability of most community banks to access the capital markets will enable us to invest at attractive pricing levels.

- *Sector Overlooked by Institutional Capital Providers.* We believe that many investors historically have avoided investing in community banks due to the small size of these banks, their heavy regulation, the Bank Holding Company Act, which imposes ownership restrictions and the perception that community banks are riskier than larger financial institutions. In addition, many capital providers lack the necessary technical expertise to evaluate the quality of the small- and mid-sized privately-held community banks and lack a network of relationships to identify attractive opportunities.

- *Favorable Market Conditions.* We believe that the substantial re-pricing of risk resulting from the recent financial crisis along with significantly improved bank balance sheets since the worst period of the crisis has created an ideal environment for us to continue our investment activities. Bank failures and unprecedented losses by large money-center banks and investment banks related to sub-prime mortgages and other higher risk financial products have negatively affected the view of all banks even those smaller banks not engaged in such activities. As a consequence, valuations of financial institutions have declined substantially, allowing potential investors to dictate favorable terms.

Competitive Advantages

We believe that our significant focus on the community banking sector provides us with a strong competitive advantage relative to non-specialized investors. We believe that we are well-suited to meet the capital needs of the community banking sector for the following reasons:

• *Experience in the Community Banking Sector.* The current investment platform of our Advisor s affiliate, StoneCastle Partners, provides us with significant advantages in sourcing, evaluating, executing and managing investments. StoneCastle Partners and its subsidiaries managed almost $11.0 billion of assets focused on community banks, including approximately $1.5 billion of capital invested in more than 250 banking institutions and over $9.5 billion of institutional cash in over 600 banks as of December 31, 2015.

- *Substantial Access to Deal Flow.* In order to execute our business strategy, we currently rely on what we believe to be our Advisor s and its affiliates strong reputations and deep relationships with issuers, underwriters, financial intermediaries and sponsors, as well as our exclusive investment referral and endorsement relationships with CAB, subsidiaries of the ABA. Pursuant to the agreements governing these relationships, CAB assists us with the promotion and identification of potential investment opportunities through marketing campaigns, placements at ABA events and introductions to banks seeking capital. In addition, CAB has granted to us a license to use the CAB name, Corporation for American Banking, in connection with our investment program. We may use this name in connection with the promotion and identification activities, including emails, press releases, events and due diligence questionnaires targeting ABA members. Most capital raising activities by community banks are conducted through privately-negotiated transactions that occur outside of traditional institutional investment channels, including the capital markets. We believe that StoneCastle Partners and CAB s large network of relationships will help us to identify attractive investment opportunities and will provide us with a competitive advantage. The ABA and its subsidiaries have not endorsed any future offering, and you should not construe references to them in this prospectus as such an endorsement.

- *Experienced Management Team.* StoneCastle Partners and its affiliates are led by StoneCastle Partners two Managing Partners, Joshua S. Siegel and George Shilowitz, and as of December 31, 2015, had approximately 55 employees. Our investment team is comprised of professionals who have substantial expertise investing in community banks, and includes former senior bankers, credit officers, private equity investors, rating agency analysts, bank examiners, fixed income specialists and attorneys.

- *Specialized / Proprietary Systems.* During the past decade, StoneCastle Partners has invested substantial funds and resources into the development of its proprietary analytic systems/database that is dedicated to analyzing banks (the RAMPART systems). RAMPART currently tracks and analyzes every bank in the United States and provides our investment professionals with significant operational leverage, allowing our team to sort through vast amounts of data to screen for potential investments. We believe that few institutional investors have developed infrastructure compar