

StoneCastle Financial Corp.
Form POS 8C
April 30, 2019

As filed with the Securities and Exchange Commission on April 30, 2019

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

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.

Post-Effective Amendment No. 5

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 16

STONECASTLE FINANCIAL CORP.

(Exact Name of Registrant as Specified in Charter)

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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.

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3000 Two Logan Square

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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.

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

when declared effective pursuant to Section 8(c).

If appropriate, check the following box:

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

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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.

BASE 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 \$16.1 billion of assets focused on community banks, including approximately \$1.5 billion of capital invested in more than 250 banking institutions and over \$14.5 billion of institutional cash in over 800 banks as of December 31, 2018.

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.

IMPORTANT NOTICE TO SHAREHOLDERS

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Company's shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Company or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Company or your financial intermediary electronically by contacting your financial intermediary (such as a broker-dealer or bank); other shareholders may call the Company at (212) 354-6500.

You may elect to receive all future reports in paper free of charge. You can inform the Company or your financial intermediary that you wish to continue receiving paper copies of your shareholder reports by contacting your financial intermediary (such as a broker-dealer or bank); other shareholders may call the Company at (212) 354-6500. Your election to receive reports in paper will apply to all funds held with the Company complex or your financial intermediary.

Investing in our securities involves risks. See Risk Factors beginning on page 48 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.

The date of this prospectus is April 30, 2019

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Our common stock is listed on the NASDAQ Global Select Market under the symbol **BANX** . On April 26, 2019, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$21.56 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 April 30, 2019, 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 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. **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

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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 Advisor 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, 2018, StoneCastle Partners and its subsidiaries managed almost \$16.1 billion of assets focused on community banks, including approximately \$1.5 billion of capital invested in more than 250 banking institutions and over \$14.5 billion of institutional cash in over 800 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

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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, 2018, the community banking sector is a highly fragmented \$3.0 trillion industry, comprised of over 5,400 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 0.35%, 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 0.26% for Moody's Baa-rated corporate bonds and 1.01% for Ba-rated bonds, with the highest one year default rates of 1.99% and 11.71%, for Baa-rated and Ba-rated corporate bonds, respectively, as reported in an Annual Default study released on February 1, 2019: Defaults will rise modestly in 2019 amid higher volatility.
- *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, 2018, banks with less than \$10 billion of assets maintained Tier 1 risk-based capital ratios 15% higher than banks with more than \$10 billion of assets. Given that banks over \$10 billion have 32% higher non-current loans to loans (1.04% vs. 0.79%), 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, 2018. Despite significant industry consolidation since 1980, as of December 31, 2018 there were still more than 5,400 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

- 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, 2018, 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.

- 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 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 and the price at which these securities are sold may be less than the price used to calculate our NAV.
- 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 years ended December 31, 2018 and 2017, all of the distributions the Fund made to stockholders consisted of income 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.
- The Company utilizes a revolving credit agreement with Texas Capital Bank, N.A. (Texas Capital Bank) (the Credit Facility). The terms of the Credit Facility were last amended in May 2017, to provide for a maximum borrowing amount of \$62 million and a fee of LIBOR +2.35%, with a maturity date of May 2022. 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. Prior to the May 2017 amendment, the Credit Facility had been with a syndicate of financial institutions that was led by Texas Capital Bank, it had a five-year term maturing in June 2019, was priced at a term of 1, 2 or 3-month London Interbank Offered Rate (LIBOR) plus 2.85%, and permitted us to borrow up to \$70.0 million. As of December 31, 2018, \$51 million was committed and drawn on the Credit Facility.
- 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 Texas Capital Bank.

- 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 securi