Following the 2008 financial crisis, concerns arose about the possible procyclical effects of risk-sensitive capital requirements that rely on Value-at-Risk (VaR) for determining the market risk capital charge. To analyze this issue, I modify the monopolistically competitive banking sector developed by Gerali et al. (2010) to include a tractable method for banks to adjust their trading book position while also accounting for changes in VaR-based capital requirements and marked-to-market balance sheets in a fully dynamic general equilibrium model. The model is calibrated to U.S. data and estimated with Bayesian techniques to pin down the dynamics. The results suggest that VaR-based capital requirements creates a link between financial asset markets and credit markets when financial institutions manage a portfolio of trading securities. This type of regulation can create spillover effects from financial asset price and volatility shocks into credit markets as banks adjust their balance sheets to comply with capital standards.