Paixao (2018)

* Study the extent to which the deterioration of bank balance sheets explains the large contraction in house prices and consumption.
* Introduces Banking Sector with balance sheet frictions into a model of long-term collateralized debt with risk of default.
  + Credit supply endogenous – determined by capitalization of the entire banking sector.
* When banks poorly capitalized
  + Mortgage spreads increase
  + Endogenous down payments increase