

Loan Origination in Uncertain Economic Times: The Call of ODIN

The Federal Open Market Committee (FOMC) at its July 29–30 meeting held the federal funds rate steady at 4.25%–4.50%—the fifth consecutive decision not to change rates. The FOMC emphasized that growth in the U.S. economy appears to have moderated in the first half of 2025, labor market remains solid, and core inflation continues to run above target. For the first time since 1993, two FOMC members opposed the decision: Governors Michelle Bowman and Christopher Waller cast dissenting votes in favor of a quarter-point rate cut. Chair Powell, highlighting risks around economic outlook, emphasized that the Fed was taking a gradual and data-dependent approach.

Although the Fed’s Summary of Economic Projections still includes expectations of two rate cuts later in 2025, there is now a lot of uncertainty over the future path of interest rates. Both financial markets and bankers are left navigating significant ambiguity about when rate cuts will begin, how far they will go, and how quickly financial conditions might shift.

Making loan origination decisions in this environment is more challenging than ever. Too often, when faced with complexity borrowers and lenders rely on the “gut feel” rather than rationally compare the costs and benefits of loan structures. Intuition, however, is rarely a good substitute for thinking and rigorous analysis.

Introducing ODIN – Delfi’s Optimal Duration Index

For banks, lending decisions cannot be viewed in isolation—they must align with the institution’s broader asset-liability strategy. Overconcentration in short-term floating-rate loans can leave interest income vulnerable if rates decline while overweighting longer-term loans can compress margins if funding costs remain higher for longer.

Loan officers must consider both the projected yield on the loan and the cost of funding. This trade off involves many potential variables and can be seemingly overwhelming. However, Delfi’s Overwatch allows us to create a high-fidelity digital twin simulation of loan originations at different maturities to help bankers assess this tradeoff.

More concretely, we used Overwatch to simulate fixed rate loans of various maturities from 1 to 30 years. The loan rate followed the Treasury yield curve as a proxy for the lending curve and funding cost was proxied by the SOFR-OIS forward curve. Then we computed the resulting net interest income and solved for the loan duration that maximized the bank’s profitability (adjusting for the uncertainty around future rates).

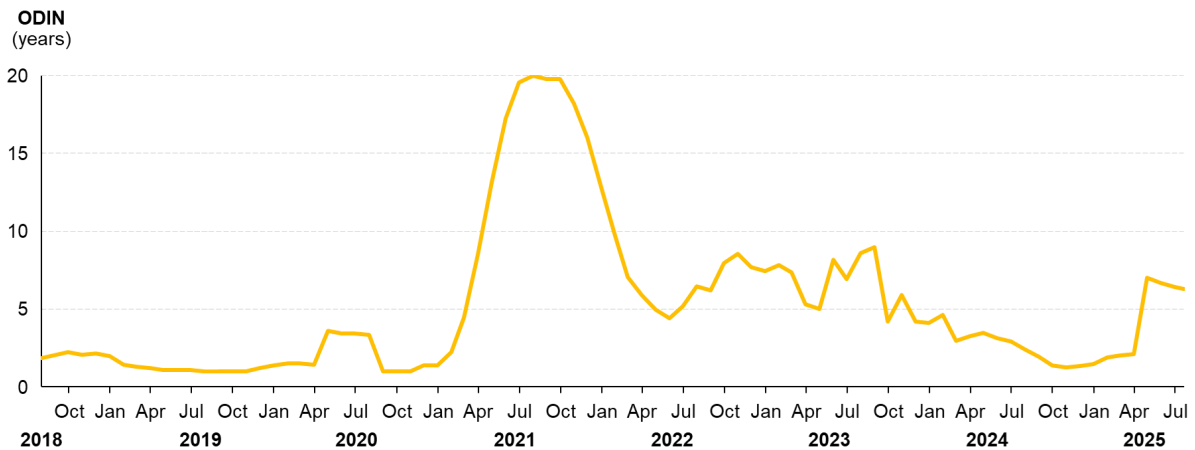
We call the resulting optimal point of loan maturity (in years) the Optimal Duration Index (ODIN). ODIN represents the theoretically ideal point at which banks should maintain the duration of their loan portfolios to achieve maximum risk-adjusted margins. Of course, this analysis is only focused on the timing of loan durations, all else equal, and loan officers must also consider creditworthiness, liquidity, and many other loan or bank-specific factors.

Following ODIN

According to ODIN, optimal duration for a bank’s aggregate loan portfolio is currently about 6 years. A bank whose loan portfolio is close to this target can be expected to achieve its maximum net interest margin. Shorten duration significantly below 6 years, and banks risk exposing margins to potentially lower future lending rates.

As Figure 1 shows, ODIN jumped significantly in early 2025 as the Treasury curve steepened over market concerns around budget deficits and tariff policy, though there has been a slight retracement since. Also notable is that ODIN was historically highest during the first half of

2021 when funding costs were at rock bottom but ODIN started moving southwards before the Fed hiking cycle began in earnest in 2022.



While many borrowers are currently choosing short-term financing hoping for the start of the Fed easing cycle, ODIN sends a weighted message that banks should strike a healthy balance between short-term and long-term debt in the uncertain rates environment.

Delfi will be releasing ODIN calculations on a regular monthly cadence, which we hope can be a useful tool for loan officers and ALCOs to optimize their loan portfolios.