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New Texas Law Offers Financial Institutions an Innovation-Friendly AI Framework

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On May 31, 2025, Texas enacted HB 149, the *Texas Responsible Artificial Intelligence Governance Act*, creating one of the most comprehensive state-level frameworks to date for regulating artificial intelligence. Unlike more prescriptive regimes such as the EU AI Act, HB 149 reflects a more measured, innovation-aware approach—one that financial institutions and fintech companies may find more compatible with the current pace of AI development.

The law defines an "artificial intelligence system" as any machine-based system that infers from inputs and produces outputs—such as predictions, recommendations, or decisions—that influence real or virtual environments. The law applies to any company conducting business in Texas, producing products used by Texas residents, or deploying AI systems within the state. This broad scope will likely capture many financial services firms offering digital products, customer support bots, fraud detection models, and credit or pricing algorithms.

HB 149 imposes specific obligations around the use of biometric data, a growing area of concern for financial services firms using voice authentication, facial recognition, or behavioral analytics. Companies may not use biometric identifiers for commercial purposes without first obtaining informed consent. The law does allow use of biometric data to train AI models, but once those models are used commercially, consent requirements attach. This creates a compliance checkpoint for financial institutions using biometric signals to train or deploy fraud models, identity verification tools, or customer engagement systems.

In a consumer-facing context, the law requires government agencies to disclose when a person is interacting with an AI system and prohibits the use of "dark patterns" or deceptive designs that obscure such disclosures. While this requirement currently applies to government, it reflects a transparency trend that financial institutions deploying AI chatbots or decision engines should monitor closely. Additionally, the law bans certain high-risk uses of AI, including systems intended to incite violence or enable "social scoring"—a prohibition that could inform future policy around AI-driven credit scoring, pricing, or customer segmentation.

HB 149 also offers two provisions that financial institutions exploring or testing AI will find appealing. First, it creates a regulatory sandbox under the Texas Department of

Information Resources (DIR), allowing companies to test AI models in a supervised environment for up to 36 months. Sandbox participants must submit quarterly reports addressing risk mitigation, system performance, and stakeholder feedback. This could be particularly valuable for fintechs and banks piloting novel credit underwriting tools or automated fraud detection systems.

Second, the bill establishes the Texas Artificial Intelligence Advisory Council, a 10-member body charged with overseeing AI use by state agencies, recommending regulatory updates, and identifying innovation roadblocks. While it lacks direct rulemaking authority, the council's advisory role could offer a critical touchpoint for financial services firms to shape future AI guidance, particularly as Texas positions itself as a leader in AI governance.

Enforcement of HB 149 falls to the Texas Attorney General, who must establish a complaint intake system and may assess civil penalties of up to $100,000 per violation. The law includes a broad preemption clause, blocking local governments from adopting conflicting AI rules—an important feature for national financial institutions concerned about regulatory fragmentation.

With an effective date of January 1, 2026, HB 149 gives financial services firms time to assess compliance risks and begin aligning AI development and deployment practices with the law's principles. In a sector increasingly reliant on automated systems for credit decisioning, risk modeling, and customer service, Texas's framework could serve as a blueprint for future AI regulation that safeguards consumers without stifling innovation.

HB 149 is now on the desk of Gov. Greg Abbott and awaits his signature.

Join us for a webinar highlighting anticipated state AG enforcement trends on June 18, 2025 at 2:00 pm ET. Click here to learn more about Hudson Cook's State Enforcement Practice.

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