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Hearing on "Unlocking the Next Generation of AI in the U.S. Financial System for Consumers, Businesses, and Competitiveness"

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Chairman Steil, Ranking Member Lynch, and distinguished members of the Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence: thank you for the invitation to testify on the use of artificial intelligence in the financial sector. I am Nicol Turner Lee, a Senior Fellow in the Governance Studies program and Director of the Center for Technology Innovation at the Brookings Institution. With a history of over 100 years, Brookings is committed to evidence-based, nonpartisan research in a range of focus areas. My research expertise encompasses data collection and analysis around regulatory and legislative policies that govern telecommunications and high-tech industries, along with the impacts of innovation, artificial intelligence, and the digital divide. I am also the author of *Digitally Invisible: How the Internet is Creating the New Underclass*, which explores and investigates the latter point. I am testifying in my individual capacity.

I. Introduction

The financial sector has long adopted many of the newest technologies to increase efficiency and profits while minimizing risk. Artificial intelligence (AI) brings opportunities to advance these goals, especially to support information processing, and was quickly adopted by the retail financial services sector. In fact, the sector's spending on AI is expected to grow to $97 billion by 2027, up from $35 billion in 2023.[1] For years, AI has been used in banking, fraud detection, mortgage applications, and credit underwriting in addition to other backend financial functions like data analytics. Many of these use cases are promising, offering the potential for greater accessibility and improved customer service, while others may introduce challenges, including concerns about bias and discrimination.

Yet the technology was introduced into a complex regulatory landscape. As one of the country's most highly regulated industries, there are several independent agencies with oversight over financial institutions, including the Federal Deposit Insurance Corporation (FDIC), Securities and Exchange Commission (SEC), Consumer Financial Protection Bureau (CFPB), and Commodity Futures Trading Commission (CFTC).[2] Each of these is designated unique or overlapping authority to ensure regulatory compliance to achieve goals such as financial stability and taxpayer protection. The expansion of AI into the sector also has called for guidance on how these regulations apply to the technology and an assessment of where additional safeguards are needed. Such efforts progressed in part under the prior administration.

In 2023, the CFPB released guidance on credit denials involving AI, describing how "lenders must use specific and accurate reasons when taking adverse actions against consumers."[3] Seeking to empower the directors of the Federal Housing Finance Agency (FHFA) and CFPB, additional guidance in 2023 required regulated entities "to use appropriate methodologies including AI tools to

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[1] Parker, David. "The Future of AI in Financial Services." *Forbes*, October 3, 2024. https://www.forbes.com/sites/davidparker/2024/10/03/the-future-of-ai-in-financial-services/.
[2] Labonte, Marc. "Introduction to Financial Services: The Regulatory Framework." Congressional Research Service, April 1, 2025. https://www.congress.gov/crs-product/IF11065.
[3] Consumer Financial Protection Bureau. "CFPB Issues Guidance on Credit Denials by Lenders Using Artificial Intelligence," September 19, 2023. https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-guidance-on-credit-denials-by-lenders-using-artificial-intelligence/.

ensure compliance with Federal law," "evaluate their underwriting models for bias," "evaluate automated collateral-valuation and appraisal processes in ways that minimize bias," and "combat unlawful discrimination enabled by automated or algorithmic tools used to make decisions about access to housing and in other real estate-related transactions."[4] While these measures are critical as the use of AI continues to grow in the industry, they have since been revoked with work stopped or eliminated at the current downsized CFPB.[5]

In this written testimony, I argue that the adoption and use of AI in the financial services sector are at an accelerated pace and require careful review. Risks abound that can undermine consumers' ability to be economically resilient and experience the benefits of wealth creation. Due to inaccurate or discriminatory information that is often used to train AI models, marginalized populations are at even higher risk when AI systems make misjudgments about their qualifications and eligibility for economic opportunities; thereby, widening the wealth gap and limiting access to homeownership, credit worthiness, and other financial transactions that bring hope and promise to their quality of life. For these reasons, Congress must continue to foster responsible and ethical AI use in the financial regulation sector by providing safeguards that protect consumers from AI risks now and into the future.

II. AI in financial services requires responsible and ethical deployment and design to protect vulnerable populations

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[4] Biden, Joseph R. "Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence." The White House, October 30, 2023. https://bidenwhitehouse.archives.gov/briefing-room/presidential-actions/2023/10/30/executive-order-on-the-safe-secure-and-trustworthy-development-and-use-of-artificial-intelligence/.

[5] Rugaber, Christopher. "Trump Administration Orders Consumer Protection Agency to Stop Work, Closes Building." *Associated Press,* February 9, 2025. https://apnews.com/article/trump-consumer-protection-cease-1b93c60a773b6b5ee629e769ae6850e9.

Across all sectors, it is important that AI must be responsibly and ethically designed. This process begins early on, ensuring fairness and accuracy in the data used to train models, consistently auditing outputs, and identifying high-risk use cases. Many uses of AI in the financial sector are considered high impact, as credit score calculations or loan denials can have major consequences on individuals' lives and financial opportunities.[6] These risks are not abstract or hypothetical; research has continued to demonstrate discriminatory results using AI in decision-making.

While human decision-making in the financial sector undoubtedly introduces some bias and AI may show promise in eliminating such inequities through potential technical objectivity, at its current stage, research shows some models reinforce them. For example, the data used to calculate eligibility and credit scores often reflect historical inequities. Black and Hispanic communities are more likely to have limited credit history and may not be adequately represented in the data used to train a model to carry out financial eligibility decisions.[7] Put into context: A 2023 report from Pew Research Center shows that white and Asian households reported significantly more wealth than Black, Hispanic, and multiracial counterparts.[8] The same research showed that just 45% of Black households were categorized in the middle or upper wealth tiers in 2021, compared to over 70% of white and Asian ones.[9] Whereas past discrimination such as redlining may have directly correlated with one's race, lending applications can use location, names, or other information to signal an

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[6] Klein, Aaron. "Credit Denial in the Age of AI." Brookings, April 11, 2021. https://www.brookings.edu/articles/credit-denial-in-the-age-of-ai/.; Valdrighi, Giovani, Athyrson M. Ribeiro, Jansen S. B. Pereira, Vitoria Guardieiro, Arthur Hendricks, Décio Miranda Filho, Juan David Nieto Garcia, et al. "Best Practices for Responsible Machine Learning in Credit Scoring." *Neural Computing and Applications* 37 (August 5, 2025): 20781–821. https://doi.org/10.1007/s00521-025-11520-y.

[7] Munsterman, Korin. "When Algorithms Judge Your Credit: Understanding AI Bias in Lending Decisions." Accessible Law. UNT Dallas Law Review, 2025. https://www.accessiblelaw.untdallas.edu/post/when-algorithms-judge-your-credit-understanding-ai-bias-in-lending-decisions.

[8] Kochhar, Rakesh, and Mohamad Moslimani. "Wealth Gaps across Racial and Ethnic Groups." Pew Research Center, December 4, 2023. https://www.pewresearch.org/2023/12/04/wealth-gaps-across-racial-and-ethnic-groups/.

[9] Ibid.

applicant's race, even if it's not explicitly reported.[10] When AI models are trained on discriminatory or inaccurate data, it further harms and often disqualifies consumers who have been trapped by structural inequalities that limit wealth creation.

Extending beyond AI's impact on historically marginalized communities, emerging technologies also enable financial institutions to rely on a wider range of data sources to make these decisions, many of which are not directly related to financial status or that may be used as proxies for such. Gross inequities can arise from proxy measures deployed by financial institutions. For example, information such as what type of device a user is on, their email provider, whether someone capitalizes the first letters of their name, and even social media histories can be used to predict financial behaviors.[11] These decisions extend beyond whether someone receives a loan; such scores may also be considered by landlords when considering a tenant or by companies when making a hiring decision.[12]

III. Financial safeguards must be in place to ensure trustworthy AI

Congress must focus on consumer protection to safeguard consumers from the aforementioned biases and the unsubstantiated decisions that may arise when automated decision-making systems are used. Everyday consumers should be provided with assurance via financial disclosures and enforcement against bad actors. Just as AI tools could be used by businesses to gain efficiency and analyze greater swaths of information, they are also accessible to scammers and cyber criminals for the same ends. Scammers can use generative models to replicate the voice or likeness

[10] Bowen III, Donald E., S. McKay Price, Luke C.D. Stein, and Ke Yang. "Measuring and Mitigating Racial Bias in Large Language Model Mortgage Underwriting." *SSRN Electronic Journal*, April 30, 2024. https://doi.org/10.2139/ssrn.4812158.
[11] Klein, Aaron. "Reducing Bias in AI-Based Financial Services." Brookings, July 10, 2020. https://www.brookings.edu/articles/reducing-bias-in-ai-based-financial-services/.
[12] TechEquity. "Unpacking HUD's New Guidance on Algorithmic Tenant Screening," May 29, 2024. https://techequity.us/2024/05/29/unpacking-huds-new-guidance-on-algorithmic-tenant-screening/.

of someone a target might trust, or better gather information on individuals, to create more effective social engineering schemes.[13] A report from the Identity Theft Research Center recently found that impersonation has become the most reported type of scam, with incidents increasing 148% from 2024-2025.[14] Older consumers may be more likely to fall prey to these deepfakes and lose their life savings.[15] Such thefts are devastating for senior citizens and can completely ruin their lives.

The role of independent agencies and states

Independent federal agencies and state attorneys general play a large role in holding AI models accountable, as well as big business. In the absence of comprehensive federal regulation over AI's use in financial services, the Federal Trade Commission (FTC), CFPB, Department of Housing and Urban Development (HUD), and state attorneys general have extended existing consumer protection regulations and frameworks to the AI context. For example, the CFPB previously published research on the use of automated customer service models in consumer finance.[16] The former CFPB Director Rohit Chopra also stated that "there is no 'fancy new technology' carveout to existing laws," emphasizing that algorithmic decision-making is held to the same standards as human decision-making.[17] Since courts have ruled that firms' use of biased algorithmic tools may constitute

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[13] Gedye, Grace. "AI Voice Cloning: Do These 6 Companies Do Enough to Prevent Misuse?" Consumer Reports, March 10, 2025. https://innovation.consumerreports.org/AI-Voice-Cloning-Report-.pdf.; Park, Peter S., Simon Goldstein, Aidan O'Gara, Michael Chen, and Dan Hendrycks. "AI Deception: A Survey of Examples, Risks, and Potential Solutions." Patterns 5, no. 5 (May 10, 2024). https://doi.org/10.1016/j.patter.2024.100988.

[14] Identity Theft Resource Center. "2025 Trends in Identity Report," June 2025. https://www.idtheftcenter.org/wp-content/uploads/2025/06/2025-ITRC-Trends-in-Identity-Report.pdf.

[15] Bradley, Steven. "Behind the Screen: Elder Financial and Technology Abuse in the Age of AI." American Bar Association, June 24, 2025. https://www.americanbar.org/groups/law_aging/publications/bifocal/vol46/vol46issue5/elderabuseandartificialintelligence/.; iProov. "IProov Study Reveals Deepfake Blindspot: Only 0.1% of People Can Accurately Detect AI-Generated Deepfakes," February 12, 2025. https://www.iproov.com/press/study-reveals-deepfake-blindspot-detect-ai-generated-content.

[16] Consumer Financial Protection Bureau. "Chatbots in Consumer Finance," June 6, 2023. https://www.consumerfinance.gov/data-research/research-reports/chatbots-in-consumer-finance/chatbots-in-consumer-finance/.

[17] Consumer Financial Protection Bureau. "CFPB Comment on Request for Information on Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector," August 12, 2024. https://www.consumerfinance.gov/about-us/newsroom/cfpb-comment-on-request-for-information-on-uses-

a biased policy decision, the CFPB should continue to monitor firms' compliance with the Equal Credit Opportunity Act and the Consumer Financial Protection Act. In cases where AI is used for "fraud screening," firms may also have to comply with the Fair Credit Reporting Act.[18] As early as 2023, the CFPB also issued guidance stating that entities using AI credit underwriting models to make lending decisions must be able to articulate "accurate" and "specific" reasons for adverse actions—they cannot hide behind the complexity of black-box models.[19] The Department of Justice and HUD also previously released documents stating that Fair Housing Act (FHA) provisions apply to tenant screening algorithms.[20]

However, the recent actions taken to defund and compromise the independence of federal agencies, such as the CFPB, can have major implications on protecting consumers from the use of opaque and discriminatory technology.[21] That is why Congress must ensure that these independent agencies be directed to work for the good of the public before AI and Big Tech companies define what consumer protection is for everyday people who depend on their financial assets to thrive and survive in society.

State attorneys general are also applying existing consumer protections and state laws to AI.[22] For example, the Massachusetts attorney general recently reached a million-dollar settlement with a

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opportunities-and-risks-of-artificial-intelligence-in-the-financial-services-sector/.; Brennen, J. Scott Babwah, Kevin Frazier, and Anna Viñals Musquera. "Are Existing Consumer Protections Enough for AI?" *Lawfare*, September 3, 2025. https://www.lawfaremedia.org/article/are-existing-consumer-protections-enough-for-ai.

[18] Ibid

[19] Consumer Financial Protection Bureau. "CFPB Issues Guidance on Credit Denials by Lenders Using Artificial Intelligence," September 19, 2023. https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-guidance-on-credit-denials-by-lenders-using-artificial-intelligence/.

[20] Brennen, J. Scott Babwah, Kevin Frazier, and Anna Viñals Musquera. "Are Existing Consumer Protections Enough for AI?" Lawfare, September 3, 2025. https://www.lawfaremedia.org/article/are-existing-consumer-protections-enough-for-ai.; TechEquity. "Unpacking HUD's New Guidance on Algorithmic Tenant Screening," May 29, 2024. https://techequity.us/2024/05/29/unpacking-huds-new-guidance-on-algorithmic-tenant-screening/.

[21] Consumer Reports Advocacy. "Senate Passes Budget Bill with Devastating Cut to CFPB's Funding," July 1, 2025. https://advocacy.consumerreports.org/press_release/senate-passes-budget-bill-with-devastating-cut-to-cfpbs-funding/.

[22] Taylor, Ashley, Clayton Friedman, and Gene Fishel. "State AGs Fill the AI Regulatory Void." *Reuters*, May 19, 2025. https://www.reuters.com/legal/legalindustry/state-ags-fill-ai-regulatory-void-2025-05-19/.; Cook, Andrew. "State

company for failing to take reasonable measures to prevent fair lending risks in their AI underwriting models, which disproportionately penalized non-white and non-citizen applicants.[23] Some states, such as Oregon, New Jersey, and California, have also issued guidance confirming that AI systems may be subject to prosecution under consumer protection statutes preventing unfair or deceptive practices.[24] Outside of the financial services context, Texas Attorney General Ken Paxton recently opened an investigation into AI chatbot platforms for possible fraudulent claims, privacy misrepresentations, and other privacy and data security-related harms.[25] These moves by state officials will extend into financial services as more agentic AI is launched.

The caution of proposed regulatory sandboxes

But these state-led actions can be weakened by federal legislation that leans into more deregulation in the financial services sector. Recent attempts to establish sandboxes for AI developers where companies can apply for waivers or modifications to regulations are examples of such regress in progress.[26] Without regulatory or enforcement consequences, companies will have more reputational risks when such problems come to light during adoption stages. Rather, the integration of AI should be a collaborative partnership between businesses and consumers to see

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Attorneys General on Applying Existing State Laws to AI." Orrick, February 18, 2025. https://www.orrick.com/en/Insights/2025/02/State-Attorneys-General-on-Applying-Existing-State-Laws-to-AI.

[23] Massachusetts Office of the Attorney General. "AG Campbell Announces $2.5 Million Settlement with Student Loan Lender for Unlawful Practices through AI Use, Other Consumer Protection Violations," July 10, 2025. https://www.mass.gov/news/ag-campbell-announces-25-million-settlement-with-student-loan-lender-for-unlawful-practices-through-ai-use-other-consumer-protection-violations

[24] Brennen, J. Scott Babwah, Kevin Frazier, and Anna Viñals Musquera. "Are Existing Consumer Protections Enough for AI?" *Lawfare*, September 3, 2025. https://www.lawfaremedia.org/article/are-existing-consumer-protections-enough-for-ai.

[25] Texas Office of the Attorney General. "Attorney General Ken Paxton Investigates Meta and Character.AI for Misleading Children with Deceptive AI-Generated Mental Health Services," August 18, 2025. https://www.texasattorneygeneral.gov/news/releases/attorney-general-ken-paxton-investigates-meta-and-characterai-misleading-children-deceptive-ai.

[26] U.S. Senate Committee on Commerce, Science, & Transportation. "Sen. Cruz Unveils AI Policy Framework to Strengthen American AI Leadership." September 10, 2025. https://www.commerce.senate.gov/2025/9/sen-cruz-unveils-ai-policy-framework-to-strengthen-american-ai-leadership.

where issues arise and how the two can foster trust with one another. Regulatory sandboxes have previously been used for industries such as the financial technology ("fintech") and pharmaceutical industries to generate evidence that can then advance policy and technological innovation.[27] However, they must be adopted with consumer protection safeguards in place, such as disclosure requirements and continuous monitoring. Regulatory sandboxes may also pave the way for anti-bias experimentation and early identification of potential risks and harms to consumers, within a controlled environment with safe harbor protections.[28] Rather than allowing a privileged set of firms to innovate at any cost while skirting accountability mechanisms, regulatory sandboxes should foster collaboration between regulators, developers, and consumers to co-create effective standards, and the process for arriving at consensus should be transparent to government, industry, and civil society actors.

IV. The AI Action Plan

Regulators and attorneys general have shown a keen interest in filling in gaps around the technology in the absence of additional legislation seeking to apply existing rules and legislation to the novel problems presented by AI. Given the potential for significant and life-altering consequences of its use in the financial sector, delays in such enforcement can have profound implications for some Americans.

It is promising, therefore, that the White House has released several executive orders on AI in addition to its AI Action Plan, which was published in July 2025. The administration is interested in securing its place in the AI race against global competitors. However, very little is mentioned to

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27 Finance, Competitiveness & Innovation Global Practice. "Global Experiences from Regulatory Sandboxes." World Bank Group, 2020. https://documents1.worldbank.org/curated/en/912001605241080935/pdf/Global-Experiences-from-Regulatory-Sandboxes.pdf.

28 Lee, Nicol Turner, Paul Resnick, and Genie Barton. "Algorithmic Bias Detection and Mitigation: Best Practices and Policies to Reduce Consumer Harms." Brookings, May 22, 2019. https://www.brookings.edu/articles/algorithmic-bias-detection-and-mitigation-best-practices-and-policies-to-reduce-consumer-harms/.

address AI's use in financial services, where it is already being used by major players, like the Fair Isaac Corporation (FICO), that are involved in many consumer credit decisions. The CFPB is the federal regulator of FICO, but following the current administration's attempts to shutter the agency, important questions remain as to how algorithms will determine these scores.

Similarly, the Plan does little to address the discriminatory implications of these models that may reflect the historical lack of opportunity granted to racial minorities. As Brookings scholar Aaron Klein has shared in response to the current guidance, AI's use in mortgage underwriting might contribute to lack of growth in Black homeownership.[29] Yet, there is very little discussion on the underlying issues of representation and fairness in both training data and deployment.[30]

Similarly, the rights of states may be compromised by the objectives of the AI Action Plan if state leaders exercise consumer protections for their constituents that federal officials appear to find burdensome. Earlier this summer, Congress considered, and ultimately struck down, a 10-year moratorium on states legislating AI, which threatened both states' rights and public interest.[31] A bipartisan coalition voted 99-1 to strike it down, indicating support for allowing states to regulate AI, but the current AI Action Plan still suggests that AI-related funds should not go to states with "burdensome AI regulations" that are "unduly restrictive to innovation."[32] Both Congress and states can exercise jurisdiction over consumer protection, and the latter, which is closer to consumers and

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[29] Klein, Aaron. "Reducing Bias in AI-Based Financial Services." Brookings, July 10, 2020. https://www.brookings.edu/articles/reducing-bias-in-ai-based-financial-services/.

[30] Friedler, Sorelle, Cameron F. Kerry, Aaron Klein, Raj Korpan, Ivan Lopez, Mark Muro, Chinasa T. Okolo, et al. "What to Make of the Trump Administration's AI Action Plan." Brookings, July 31, 2025. https://www.brookings.edu/articles/what-to-make-of-the-trump-administrations-ai-action-plan/.

[31] Morgan, David, and David Shepardson. "US Senate Strikes AI Regulation Ban from Trump Megabill." *Reuters*, July 1, 2025. https://www.reuters.com/legal/government/us-senate-strikes-ai-regulation-ban-trump-megabill-2025-07-01/.

[32] Trump, Donald J. "America's AI Action Plan." The White House Office of Science and Technology Policy, July 2025. https://www.whitehouse.gov/wp-content/uploads/2025/07/Americas-AI-Action-Plan.pdf.

their local banking industries, should have some buffer from strict scrutiny over their desires to protect everyday people in this already highly regulated sector.

V. Proposed actions to make AI safe in financial services

As the use of AI grows in financial services, so should the oversight and guidance around its use. Existing and potentially new regulation can ensure that the industry's use of the technology is fair for consumers now and as the technology advances, allowing for more autonomous use cases. There are a few key steps that should be prioritized to address concerns not only in financial services, but across sectors with similar integrations of the technology that affect the sector.

1. <u>Ensure the industry is compliant with existing legal statutes and remedies</u>

The financial sector is already regulated by numerous federal and state organizations. It is imperative that industry be compliant with existing legal statutes and remedies that seek to prevent many of the problems and discriminatory results that have been present and could be furthered by AI. AI is a powerful tool but is not exempt from the rules and laws that govern our country. They must comply with transparency and nondiscrimination laws, particularly with consumer-facing AI. This means not just empowering agencies to carry out such enforcement but also providing them with the necessary funds to do so, perhaps reconsidering the role of the CFPB or other independent agencies in harm mitigation and increasing their budget for appropriate oversight. After experimenting with regulatory sandboxes in 2024, the CFPB determined that these initiatives ended up cementing advantages for a single market participant. To proceed with any proposals that combine financial services with AI experimentation, Congress must foster pro-consumer competition through an even playing field, not by handing out "waivers" that allow some firms to skirt regulatory compliance.[33] Further, consumers are already guaranteed fair, transparent, and reliable decisions by various statutes, but they need to be enforced by independent agencies, and in some instances, state attorneys general. They must be empowered with the necessary resources to protect consumers in the age of AI, to maintain trust in our financial system, foster economic opportunity, and support individuals on their journeys toward financial stability. That also means that Congress must maintain the independence of federal agency and state decisions, and perhaps more on the latter in the absence of national leadership.

2. Mandate transparency guidelines and full disclosure for consumers

Companies that use AI in financial services should also be required to provide public consumer disclosures around AI use. These disclosure requirements should apply to firms using any algorithms or models that make decisions that can lead to adverse outcomes, even when humans make the final decision. Illinois has already amended a non-discrimination law to require employers provide notice to employees and applicants about AI's use in hiring decisions.[34] A similar law could apply to consumer finance models. Beyond transparency disclosures, model outputs should be explainable to accurately and reliably share with consumers how they came to a decision, pursuant to existing law.

Currently, researchers and labs are developing approaches to increase the reliability, reproducibility, and transparency of models, with differing degrees of success. Many frontier labs have been working on enhancing model reasoning, robustness, and interpretability. However, many

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[33] Consumer Financial Protection Bureau. "CFPB Comment on Request for Information on Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector," August 12, 2024. https://www.consumerfinance.gov/about-us/newsroom/cfpb-comment-on-request-for-information-on-uses-opportunities-and-risks-of-artificial-intelligence-in-the-financial-services-sector/.

[34] Colvin, Jennifer L., Margaret R. Foss, Mallory Stumpf Zoia, and Samuel W. Newman. "New Illinois Labor and Employment–Related Laws Cover E-Verify, 'Captive Audience Meetings,' Noncompetition, AI, and More." Ogletree, April 14, 2025. https://ogletree.com/insights-resources/blog-posts/new-illinois-labor-and-employment-related-laws-cover-e-verify-captive-audience-meetings-noncompetition-ai-and-more/.

models, including those used in consumer finance, are still complex, black-box, and sometimes inconsistent, algorithms. If firms and developers do not fully understand how algorithms came to their decisions, consumers stand to suffer when they receive adverse decisions without explanation. Consumers deserve transparency as to when AI is being used, how it might be used to make eligibility decisions, or how it is involved in profiling one's economic readiness. These mandates would help provide agency to consumers who face adverse decisions and accelerate long-term adoption and trust in consumer finance models.

3. Encourage the responsible and ethical development of financial models

Since financial models that rely on AI are trained on traditional data sources that reflect existing societal disparities, biased models may impose disproportionate burdens on already vulnerable borrowers as already highlighted. In fact, almost 50 million U.S. adults lack enough credit history to be scored under common models. Black and Hispanic consumers are twice and 1.5 times as likely, respectively, to be unscored or considered to be subprime compared to white consumers.[35] Some researchers are investigating approaches to mitigate such bias and improve model accuracy, including diversifying data sources used to train models.[36] Model developers should collaborate with civil society, research institutions, and standards development bodies to adopt responsible AI development pipelines throughout the AI lifecycle, from using representative datasets during training to leveraging tools such as NIST's AI Risk Management Framework for proper assessments and technical standards for AI-enabled, financial products. Prior to deployment, model outputs should be validated for fairness, ethics, and transparency concerns. Further, financial organizations

[35] Koide, Melissa. "AI for Good: Research Insights from Financial Services." Center on Regulation and Markets at Brookings, August 2022. https://www.brookings.edu/wp-content/uploads/2022/08/AI-for-good-Research-insights-from-financial-services-3.pdf.
[36] FinRegLab. "Advancing the Credit Ecosystem: Machine Learning & Cash Flow Data in Consumer Underwriting," July 2025. https://finreglab.org/research/advancing-the-credit-ecosystem-machine-learning-cash-flow-data-in-consumer-underwriting/.

should be willing to engage in regulatory sandboxes that address anti-bias with some level of enforcement and accountability.

4. Brace for the adoption of agentic AI in the sector

As AI models continue to advance, newer, more autonomous models will enter the sector. Agentic AI systems, for example, are designed to operate more autonomously than traditional AI systems, with AI agents engaging with their environments to process information and complete complex tasks with minimal direction. Multi-agent systems (MAS) consist of multiple agents with different roles in the larger ecosystem: for example, one agent may retrieve data while another processes it or even coordinates other agents.[37] In financial services, agentic AI systems can be used for cybersecurity, compliance, and investment strategy tasks, as well as underwriting-related and claims adjustment purposes.[38] Agentic AI, which is poised to assist with more complex tasks, must be cautiously integrated into financial services to ensure the safety and security of consumer assets, and market viability. Since agentic AI introduced enhanced risks from increased autonomy, firms must retain control, oversight, and transparency over agents' decisions. Some best practices include continuous monitoring, mandatory expert-in-the-loop oversight, and legibility of model outputs.[39] Agentic AI must also only be used in appropriate contexts and model developers should place operational limitations on agents on the model-level, to ensure that default agent behaviors align with safety and risk mitigation principles.[40] Furthermore, frontier labs, standards development organizations, and research institutes must extend existing risk management and audit frameworks

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[37] Quick, Jeanette, Colin Colter, Luke Dillingham, and Kelly Thompson Cochran. "The next Wave Arrives: Agentic AI in Financial Services." FinRegLab, September 2025. https://finreglab.org/wp-content/uploads/2025/09/FinRegLab_09-04-2025_The-Next-Wave-Arrives-Main.pdf.
[38] Ibid.
[39] Kwon, Joe. "AI Agents: Governing Autonomy in the Digital Age." Center for AI Policy, May 22, 2025. https://www.centeraipolicy.org/work/ai-agents-governing-autonomy-in-the-digital-age.
[40] Shavit, Yonadav, Sandhini Agarwal, Miles Brundage, Steven Adler, Cullen O'Keefe, Rosie Campbell, Teddy Lee, et al. "Practices for Governing Agentic AI Systems." OpenAI, December 14, 2023. https://openai.com/index/practices-for-governing-agentic-ai-systems/.

to ensure agentic AI frameworks are consistent with law, especially for public-facing applications. When models are fully autonomous in their decision-making, new forms of liability may arise, or existing approaches triggered. Without due diligence now, Congress may lose sight or fall behind in the compliance structure for fully autonomous financial decisions, which can start in financial counseling. Who makes the decision is, at best, a starting question for legislators, regulators, and industry representatives who are looking to embrace such sophistication in the sector.

5. Invest in AI financial literacy programs

Consumers must be provided with the means to understand the benefits, limits, and foundation of the technology. AI literacy must be widely available to increase agency and awareness among consumers in response to the accelerated offerings of AI in financial services. For all Americans to reap the benefits of AI in consumer finance, which range from providing faster customer service to expanding the accessibility of products at a lower cost, consumers must understand how to responsibly use and interpret AI outputs. AI literacy must also be paired with digital access and basic literacy on computers and the internet. Financial service activities can trigger consumer confusion when AI is intertwined with products and services. For individuals with limited access to the internet, or insufficient basic digital literacy training, they will be less likely to discern what is allowable to share in terms of their personal information, or how their data can be compromised if inputted into more public computer access terminals. With a persistent digital divide, it is important to accelerate more home broadband options for individuals to conduct private transactions from trusted spaces and internet-enabled devices, and to ensure that they understand how their data is accessed by financial institutions, and third parties. The recent elimination of the Digital Equity Act, which would have provided some foundational training in digital literacy sets society back when it comes to fluency in technology products, especially for rural residents, older people, and those with disabilities.[41] When AI is added in, these functions become more complicated to understand, and without national digital and AI literacy programs, more consumers will be victimized by scams and other fraudulent behaviors ranging from compromised identities to the loss of wealth, income, and necessary security assets. That is why Congress must consider how to support national initiatives aimed at advancing digital and AI fluencies, while advancing laws that protect consumer privacy, and ensure compliance of AI-enabled products and services with existing laws.

VI. Conclusion

We are at a critical point in providing protection to consumers facing AI's use in the financial sector. Whatever direction this takes will determine not just the next steps of innovation, but also the scale at which deployment and adoption are possible given the trust people will have in the technology. Though AI isn't new, there are still many unknowns. From the environmental impacts that AI can have on communities that are already strained to maintain clean air and water to the ramifications around labor and the effects of automated banking on some of the most vulnerable workers, there are still more questions than responses to AI's adoption and use in the financial sector. Providing consumers agency over how AI will be used to score them and determine their eligibility for an opportunity stands to benefit both the companies, who will better understand their consumers and their needs, as well as the public, who may grow more comfortable with the technology and lead to further adoption and efficiencies.

Thank you again to the Members of the Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence for the opportunity to testify. I also want to thank Brookings

[41] Garner, Drew, and Grace Tepper. "The Digital Equity Act: What It Is and Why We Need It." Benton Institute for Broadband & Society, May 14, 2025. https://www.benton.org/blog/digital-equity-act-what-it-and-why-we-need-it.

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