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the terms of a national legal settlement that aimed to fix pervasive problems in mortgage servicing, a Wednesday report from the agreement's watchdog shows.

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Bank of America and Wells Fargo are changing some of their practices to comply with the terms of a national legal settlement that aimed to fix pervasive problems in mortgage servicing, a Wednesday report from the agreement's watchdog shows.

Both banks failed tests earlier this year that were designed to see whether they were effectively servicing delinquent mortgages. Should either Bank of America or Wells Fargo be found to have failed the same tests again, they would be subject to fines or other penalties.

The tests are the result of a \$25 billion settlement between state attorneys general and five large U.S. banks announced in early 2012. The accord was intended to end widespread evidence of shoddy mortgage servicing practices by imposing a slate of more than 300 rules. Banks also are required to provide billions in relief directly to borrowers.

A year later, a June report from mortgage settlement monitor and former N.C. banking commissioner Joseph Smith showed that banks were not always living up to their end of the bargain.

Bank of America was found to have failed a test that requires banks to provide accurate information in letters sent to borrowers before referring them into foreclosure. Both the Charlotte bank and San Francisco-based Wells Fargo failed a separate test requiring banks to tell homeowners seeking a loan modification whether they have sent in all the correct documents within five days.

In Wednesday's report, Smith laid out the plans each bank has put forward to fix the

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Wells Fargo will begin notifying borrowers more frequently if they're missing documents, and will begin tracking all loan modifications in the process that do not have all the paperwork complete, according to Smith's report.

Both banks will be tested to see whether they've fixed the problem next year.

"We have some work to do, as you can see," Smith told the Observer on Wednesday. "I'm satisfied that we're making some progress."

Neither Bank of America nor Wells Fargo were immediately available for comment.

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