

S&P/CASE-SHILLER HOME PRICE INDICES 2011 YEAR IN REVIEW

Overview

The U.S. residential real estate market was headline news throughout 2011. The year was particularly notable for the way it ended. After signs of potential recovery in the spring, average home prices moved back to record lows during the latter half of 2011, as reflected by all three S&P/Case-Shiller Home Price Composites hitting new lows in December.

Other housing statistics ended the year on a somewhat more positive note. Existing home sales and housing starts began 2011 weakly, but started showing some signs of life in the latter half of the year. Both of these statistics, however, remain close to the lows recorded during the recent housing crisis. Inventories of unsold homes, as measured in both units and months' supply, began 2011 by moving back up toward their 2008 crisis levels, but pulled back a bit as the year ended. Mortgage delinquency rates and new foreclosures have fallen only modestly in both the prime and subprime loan markets; and the national unemployment rate remains high and consumer confidence low, fueling further uncertainty about an imminent turnaround in the housing market.

The S&P/Case-Shiller Home Price Indices seek to track the price path of single-family homes located in 20 metropolitan areas and three aggregated composites. The S&P/Case-Shiller National U.S. Home Price Index is a quarterly composite of single-family home price indices for the nine U.S. Census divisions (see Exhibit 2). The S&P/Case-Shiller 10-City Composite is a value-weighted average of 10 metro area indices and the S&P/Case-Shiller 20-City Composite is a value-weighted average of 20 metro area indices (see Exhibit 3).

While the three composite indices cover different portions of the market, with the national being the broadest, they track each other very closely and tell the same story: nationally, home prices appreciated in value over the decade spanning 1996-2006, peaked in 2006, reached record rates of decline in early 2009, moved almost sideways for the next two years, but have fallen back into decline with data reported through December 2011. As seen in the table below, all three composites fell by 3.7% to 3.8% during the last quarter of 2011, are now at recent lows, and are all down 33.8% versus their relative 2006 peaks.

Exhibit 1: S&P/Case-Shiller Home Price Indices			
	10-City	20-City	National
Peak date	June 2006	July 2006	Q2,'06
Peak level	226.29	206.52	189.93
Recent trough date	December 2011	December 2011	Q4,'11
Peak-to-trough decline	-33.8%	-33.8%	-33.8%
Peak-to-latest data decline	-33.8%	-33.8%	-33.8%
Appreciation since trough	--	--	--
Latest three months	-3.7%	-3.7%	-3.8%

Sources: S&P Indices and Fiserv. Data through December 2011.

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Exhibit 2 shows the index levels for the U.S. National Home Price Index, as well as its annual returns. As of the fourth quarter of 2011, average home prices across the U.S. were back at their mid- to late-2002 levels. With the 2011 year-end report, the National Index level hit a new low, falling 3.8% over the fourth quarter, and was down 4.0% versus the fourth quarter of 2010.

Exhibit 2: S&P/Case-Shiller U.S. National Home Price Index

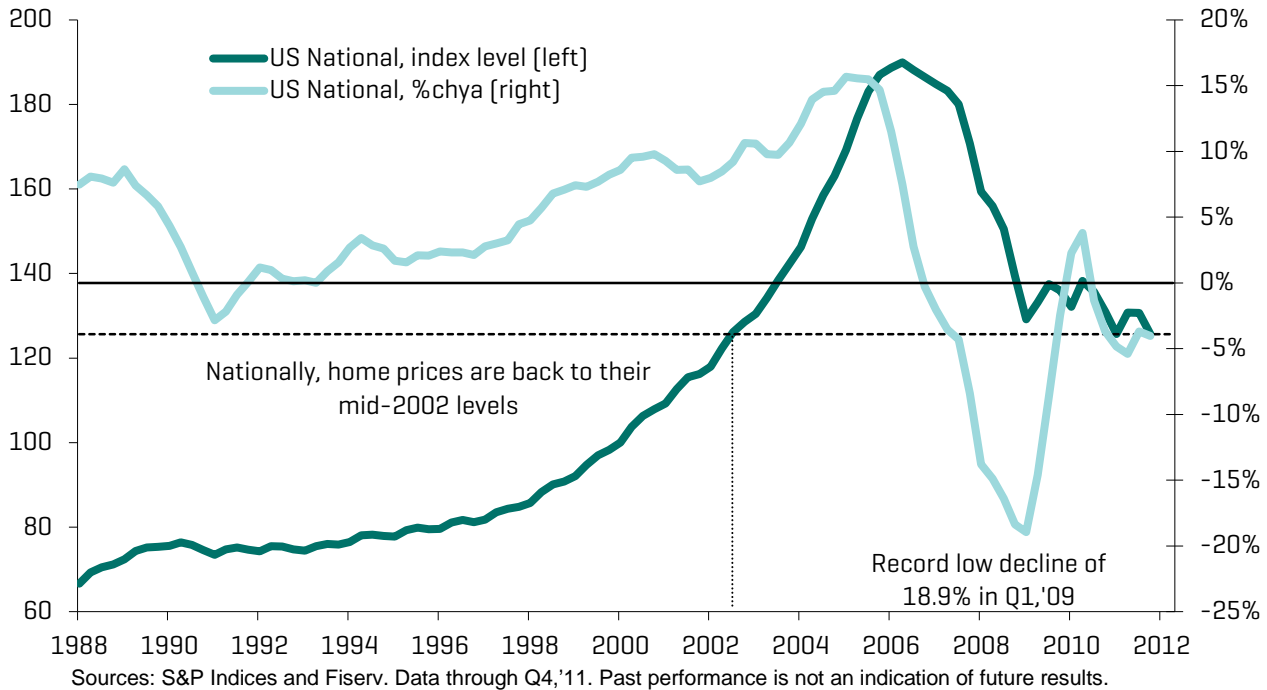
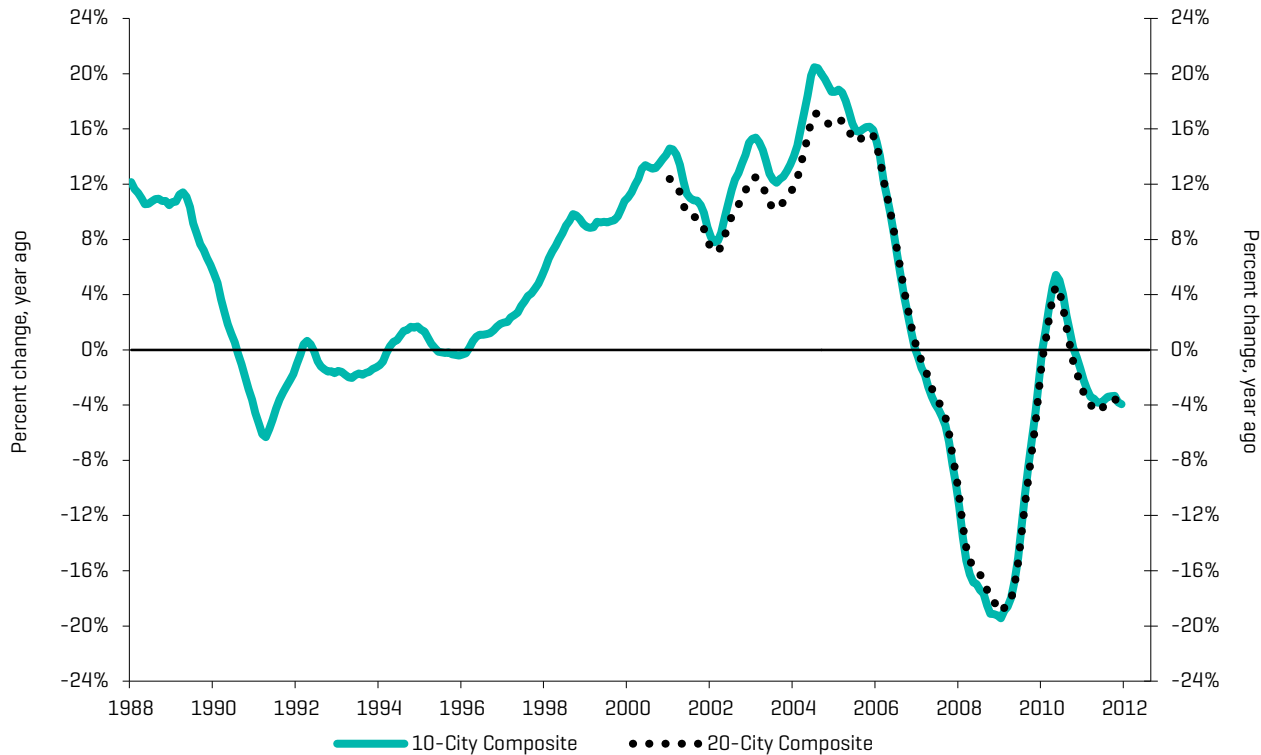


Exhibit 3 depicts the annual returns of the 10-City and 20-City Composite Home Price Indices. With data through December 2011, the 10-City and 20-City Composites reported annual rates of change of -3.9% and -4.0%, respectively. In early 2010, home prices gained some positive momentum, as annual rates of change became positive. This was short-lived, however, and growth rates resumed a negative trend in late 2010 and have remained that way throughout 2011.

Exhibit 3: S&P/Case-Shiller Home Price Indices (Annual Percent Change)



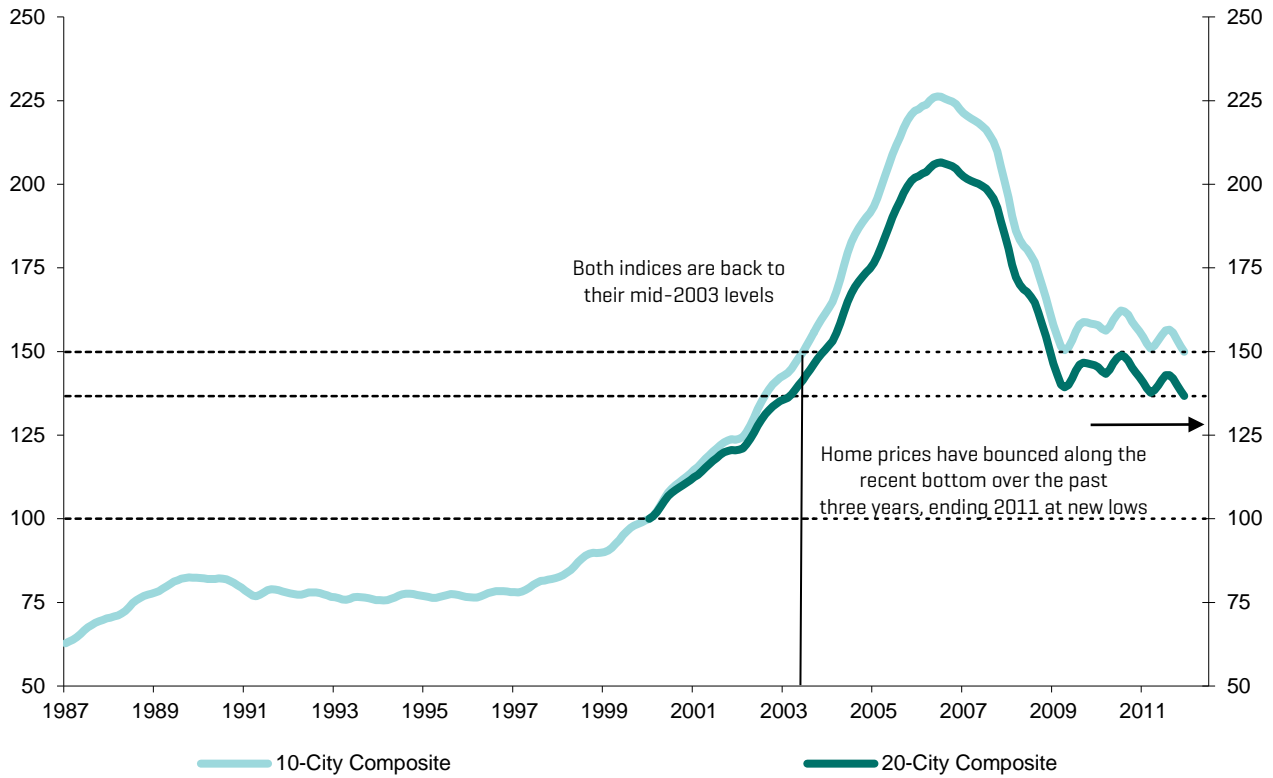
Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Regionally, the downturn in home prices began in late 2005 when home prices began to fall in the Boston, Detroit, and San Diego markets. At the national level, the downturn began in the spring/summer of 2006. In January 2007, national home prices entered their three-plus year decline, as measured by the percent change from the prior year. According to the S&P/Case-Shiller Indices, the annual rate of decline posted record lows in their 24-year history at the beginning of 2009. The S&P/Case-Shiller National Home Price Index posted a record low annual rate of -18.9% in the first quarter of 2009. The 10-City and the 20-City Composites posted record declines in January 2009 at -19.4% and -19.0%, respectively.

Exhibit 4 illustrates how the declines have affected the wealth of U.S. homeowners. As of December 2011, the index levels for both composites were back to their mid-2003 levels. Any appreciation in home prices that occurred in mid-2003 through 2006 was reversed in the following three years and has since shown no sign of recovery.

The S&P/Case-Shiller Home Price Indices are based at January 2000 = 100. This base value can be used to easily illustrate the extent to which home values have appreciated since that time. At an average national level, home prices are still about 35% to 50% above where they were in 2000; the 10-City and 20-City levels were 149.89 and 136.71, respectively, as of December 2011 (see Exhibit 4). The peak level for the 10-City Composite was 226.29 in June 2006 and 206.52 for the 20-City Composite in July 2006. At their peak, average home prices were 105% to 125% above their January 2000 levels.

Exhibit 4: S&P/Case-Shiller Home Price Indices (Index Levels)



Sources: S&P Indices and Fiserv. Data through December 2011.

Regional Differences

The 2007 to 2009 decline in home prices was an unprecedented national phenomenon. In fact, there was a 19-month period between April 2008 and October 2009 when home prices in all 20 Metropolitan Statistical Areas (MSAs) covered by the S&P/Case-Shiller Home Price Indices and both Composites were falling, as measured by annual rates of return. As of December 2011, 19 of the 20 metro areas and all three composites were still declining on an annual basis. Since the markets began to fall in mid-2005, however, there have been some large differences in the magnitude of decline between the regions.

Exhibit 5 shows the gain in home prices from January 2000 to each respective MSA's peak (note: the peak dates differ by MSA). Exhibit 6 shows the home price decline in each MSA from its relative peak through December 2011. The MSAs are listed in the same order on both Exhibits.

Exhibit 5: Peak Gains from 2000 (as of December 2011)

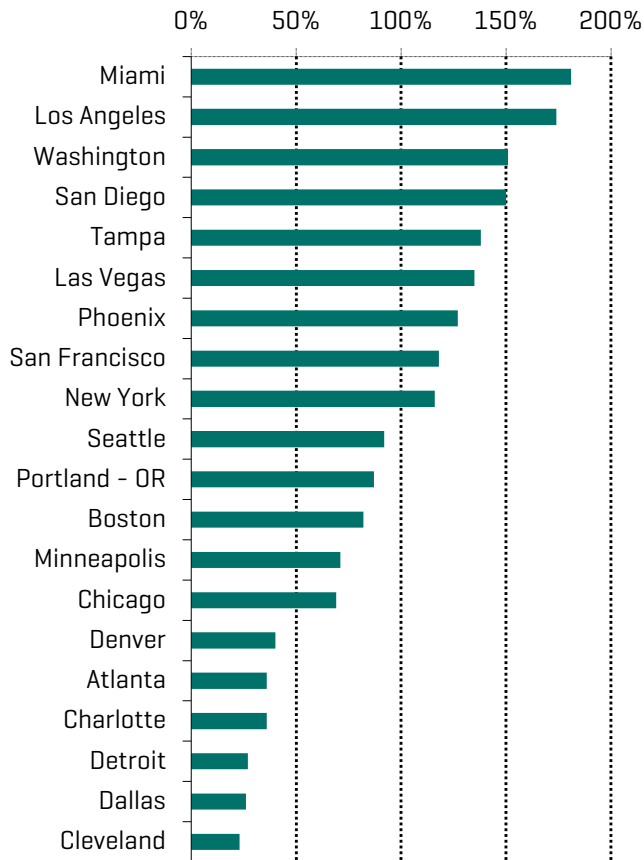
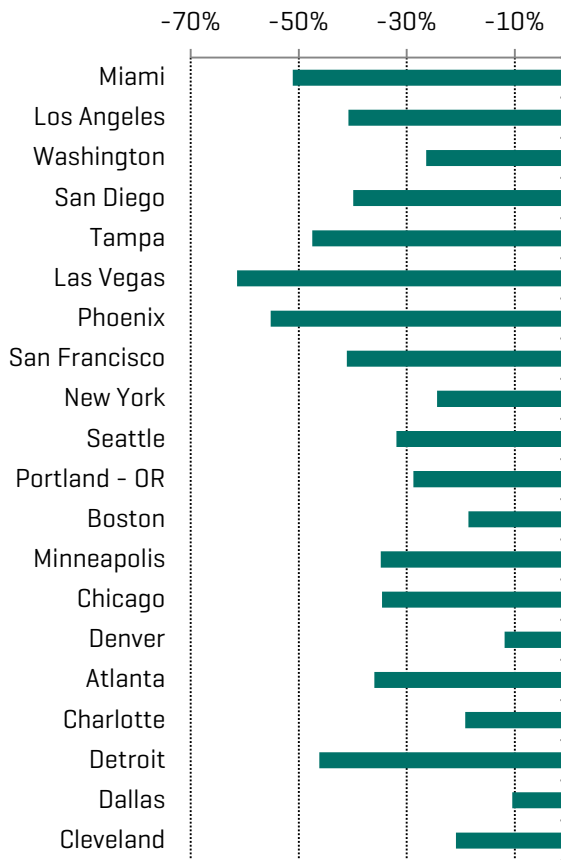


Exhibit 6: Decline from Peak (as of December 2011)



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Since 2000, cities in the Sun Belt states – Arizona, California, Florida and Nevada – experienced the largest run-up in prices and, subsequently, experienced the largest downturn. While the declines in these markets were quite large, the increases in prices from 2004 to 2006 were equally dramatic. In September 2004, Las Vegas witnessed a peak annual growth rate of +53.2%; Phoenix was not far behind with +49.3% in September 2005. In addition, Los Angeles, Miami, San Diego and Tampa all registered peak annual growth rates above +30% during that time. Other MSAs, such as Atlanta, Charlotte, Cleveland, Dallas, and Detroit, never saw their peak annual growth rates move above +10%.

As of December 2011, Las Vegas has seen a decline of 61.4% from its peak. Phoenix is not far behind with -55.2%, followed by Miami's -51.0% and Tampa's -47.5%. All 20 markets have witnessed their aggregate decline

fall below -10.0%. The smallest peak-to-December declines were Dallas and Denver, down 10.5% and 11.9%, respectively.

In addition to the three composite indices, December 2011 data shows four markets – Atlanta, Las Vegas, Seattle and Tampa – hit their lowest levels since home prices started to fall in 2006 and 2007. Average home prices in those markets have fallen beyond the recent lows seen in most other markets, which occurred in either the spring of 2009 or the spring of 2011.

California markets have remained relatively healthy after bottoming in the spring of 2009. As of December 2011, San Francisco was up 9.4% since its 2009 trough, and San Diego and Los Angeles were up 4.1% and 1.8%, respectively. Only Washington, D.C. (+8.4%), Detroit (+6.1%) and Minneapolis (+5.5%) have seen similar recovery from recent lows. All of these markets, however, are below where they were in December 2010. It should also be noted that the three California markets are all down about 40% from their relative peaks.

Although they never witnessed the extreme growth rates of the Sun Belt markets, many of the Midwest markets have been severely affected by the housing market recession. As of December 2011, Detroit was down 46.2% from its peak (well below the national average), Chicago was down 34.6% and Minneapolis had declined 34.8%. In the Southeast, Atlanta is another market that has been severely affected by the downturn in home prices. It has fallen 36.0% from its peak.

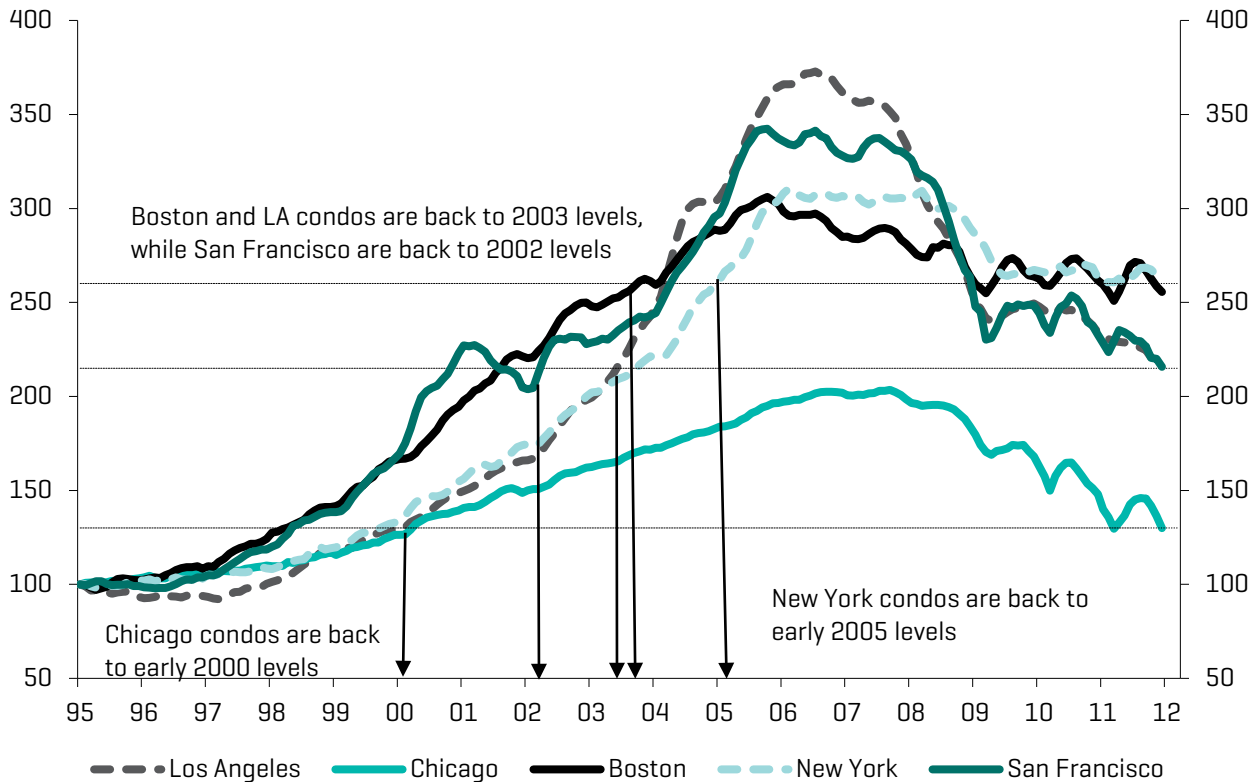
Other regions have fared far better on a relative basis. Los Angeles, New York and Washington, D.C. are three metro areas that, while having experienced fairly healthy growth patterns during 2004 to 2006, have not given back nearly as much as some of the MSAs discussed above. Washington, D.C.'s December 2011 index level was the highest at 179.89, indicating that home prices are still about 80% above their 2000 levels. New York was not far behind at 163.11, or about 63% above 2000 levels; Los Angeles posted a December 2011 value of 162.11, or a 62% appreciation.

Detroit was the only MSA that still was recording a positive annual rate of change as of December 2011, but only up 0.5%. With a December 2011 index level of 68.39, Detroit was down more than 31% from its January 2000 level. Atlanta, Cleveland and Las Vegas are the other three markets that share the distinction of being valued below where there were over a decade ago. Phoenix is not far behind.

Condominium Prices

S&P Indices also produces indices designed to track condominium prices in five major metropolitan areas – Boston, Chicago, Los Angeles, New York and San Francisco. Prices for condominiums sometimes behave differently from those for single-family homes and also vary across regions.

Exhibit 7: Condo Price Indices



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

As Exhibit 7 shows, the New York and Boston condominium markets have, so far, fared better in the housing downturn compared to Chicago, Los Angeles and San Francisco, in terms of preserving price appreciation. In spite of their more-recent declines, as of December 2011 the New York and Boston markets have still appreciated about 155% to 160% from the beginning of 1995.

With the market downturn, Boston and Los Angeles condo prices are back to mid-2003 levels and San Francisco prices are back to their early-2002 levels; New York is only back to early-2005 levels. Chicago has fared the worst, with condominium values now approaching early-2000 levels. In addition, as of December 2011, Chicago is the one market that is still close to its recent low annual rate of decline, at -12.3%, which is the lowest rate of all the markets. The other four markets have shown more improvement in this statistic since posting their relative lows in 2009.

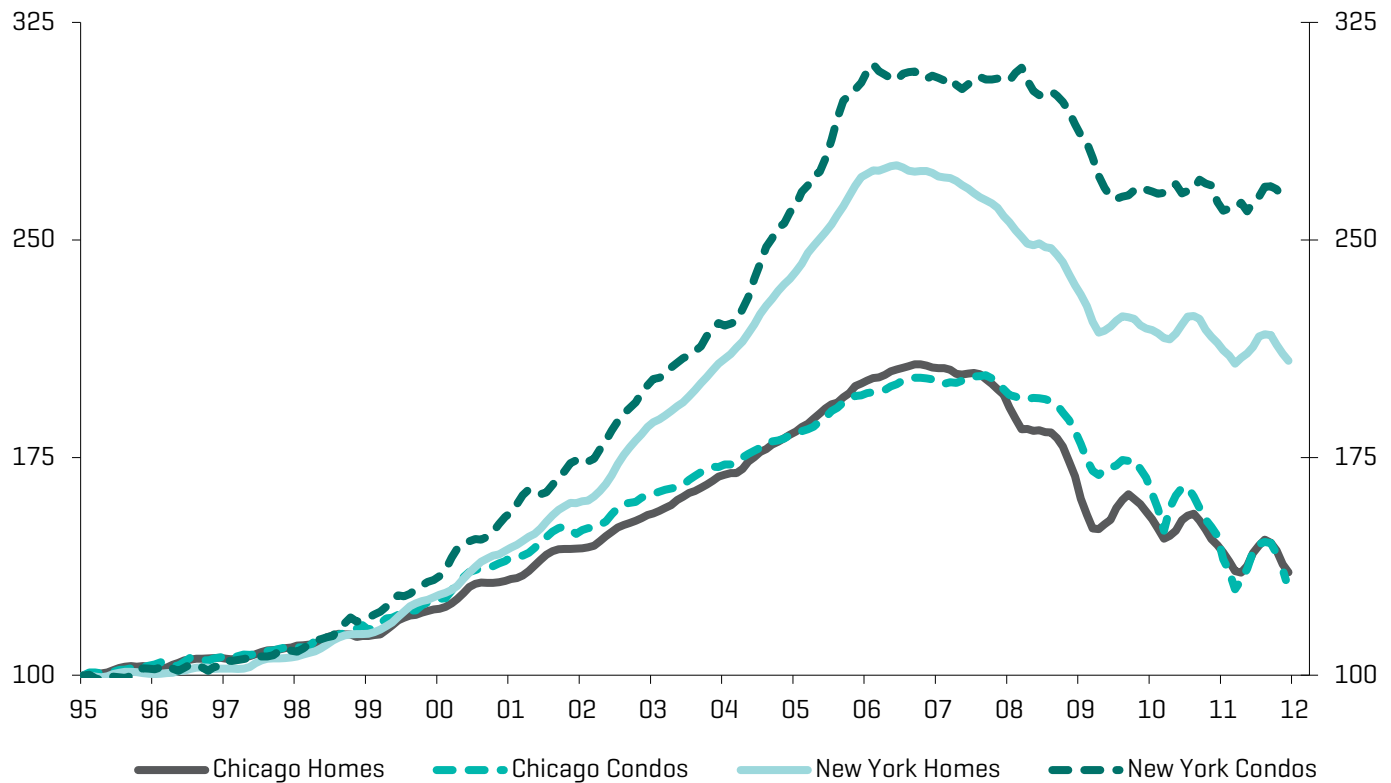
Exhibit 8 illustrates some of the differences between the single-family home and condo markets. The New York condo market is doing better than its respective housing market, as detailed in the annual rates of return. The Boston market is about the same for both. However, condo prices in Chicago, Los Angeles and San Francisco are falling more than home prices on an annual basis.

Metropolitan Area	December/November Homes	December/November Condos	One-Year Change Homes	One-Year Change Condos
Boston	-1.2%	-1.2%	-2.6%	-2.4%
Chicago	-2.0%	-4.8%	-6.5%	-12.3%
Los Angeles	-1.1%	-1.0%	-5.2%	-7.5%
New York	-1.2%	-0.7%	-2.9%	-0.2%
San Francisco	-0.8%	-1.9%	-5.4%	-7.3%

Source: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Exhibit 9 illustrates more of the regional differences across markets using Chicago and New York as examples (note: the indices were rebased to January 1995 = 100). In Chicago, condominiums closely followed the downturn in single-family home prices. Both markets peaked in late 2006 and registered some sharp annual declines, particularly in early 2009. At their lows, home prices in Chicago were down 18.7% on an annual basis and condos were down 15.7%. More recently, both a slump in home and condo prices in Chicago has resurged after a modest early 2011 pickup. As of December 2011, home prices in Chicago were down 6.5%, the third-worst annual rate of all 20 MSAs, and condo prices were down 12.3%, the worst of the five reported condo markets.

Exhibit 9: S&P/Case-Shiller Home Prices and Condo Indices (Chicago vs. New York)



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

While New York’s condo market also peaked in mid-2006, it remained relatively stable for the five following years (as illustrated by the relatively flat New York condos from 2006 to 2011). In 2009, however, the NY condo market started to mimic its single-family home counterpart, posting its lowest annual rate of decline at 12.1% in August 2009, versus the single-family home low of -12.3% in April 2009. After this trough, the condo market in New York stabilized again. As of December 2011, New York condo prices were registering a -0.2% annual return, well above Chicago’s condo market and both New York’s and Chicago’s single-family home markets. The New York condo market has so far retained more of its value since January 2000. When based to January 2000 = 100, the December 2011 index level was 195.80, close to twice the average value of condos in 2000.

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Exhibit 10 illustrates more of the regional differences across markets using New York and California as examples. As in the Chicago comparison in Exhibit 9, the New York condo market has clearly been the best relative performer. The New York condo market has been fairly stable over the past three years, whereas the California markets have largely weakened. The Los Angeles condo market has fallen by 41.9% since its July 2006 peak; the San Francisco market has fallen by 37.0% since its October 2005 peak. However, the New York market has only fallen by 15.4% from its February 2006 peak. Across all cities, however, both the single-family home and condos markets weakened at the end of 2011.

Exhibit 10: S&P/Case-Shiller Home Prices and Condo Indices (New York versus Los Angeles and San Francisco)



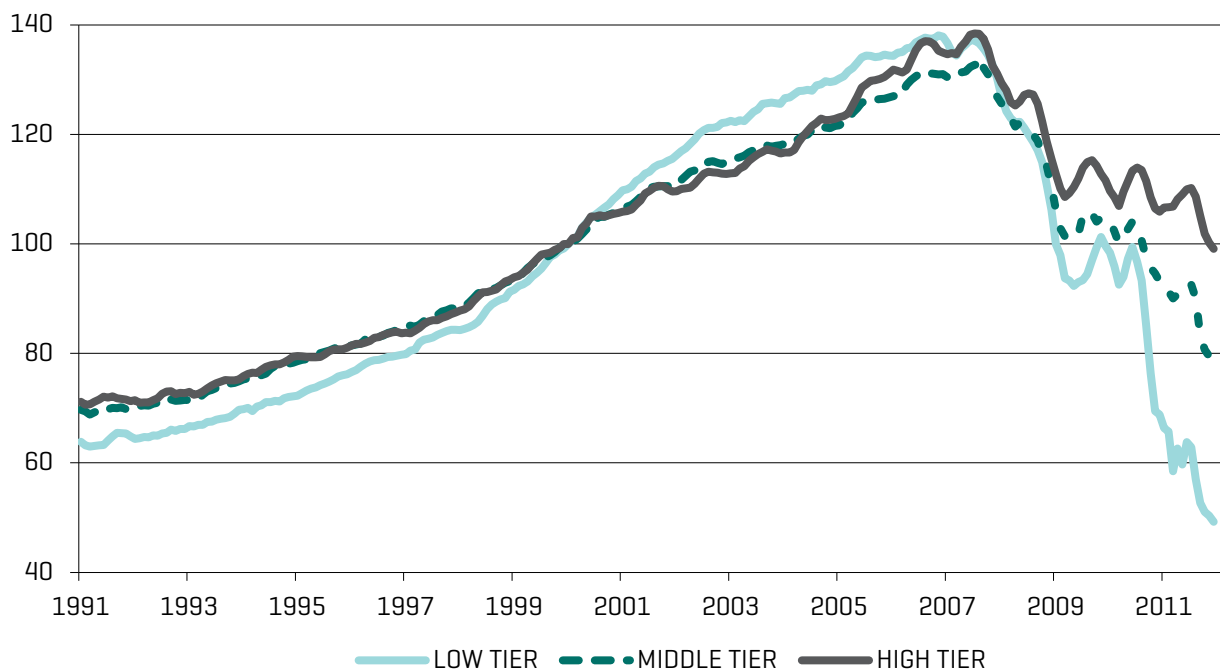
Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Tiered Prices

S&P Indices publishes supplemental tiered price data for 17 of the MSAs it covers. Tier breakpoints – price levels that divide recent sale prices in each market into thirds – are calculated for the period covered by the latest index points. A closer look at these data shows that MSAs do not behave the same across and within tiers.

Exhibits 11 through 13 highlight some differences using Atlanta, Boston and Washington, D.C. as examples. On a relative basis, all three tiers closely followed each other in Atlanta up until the middle of 2010 (see Exhibit 11). Even at their peak, none of the indices went above a level of 140, which means that none of the tiers saw more than 40% price appreciation from their January 2000 levels. Since the middle of 2010, the low-tier market has fallen dramatically, far outpacing the declines of the mid- and high-tier markets. From their peak, low-tier homes were down 64.3% in Atlanta as of December 2011, the mid-tier market was down 41.4%, the high-tier market was down 28.4%, and the aggregate market was down 36.0%.

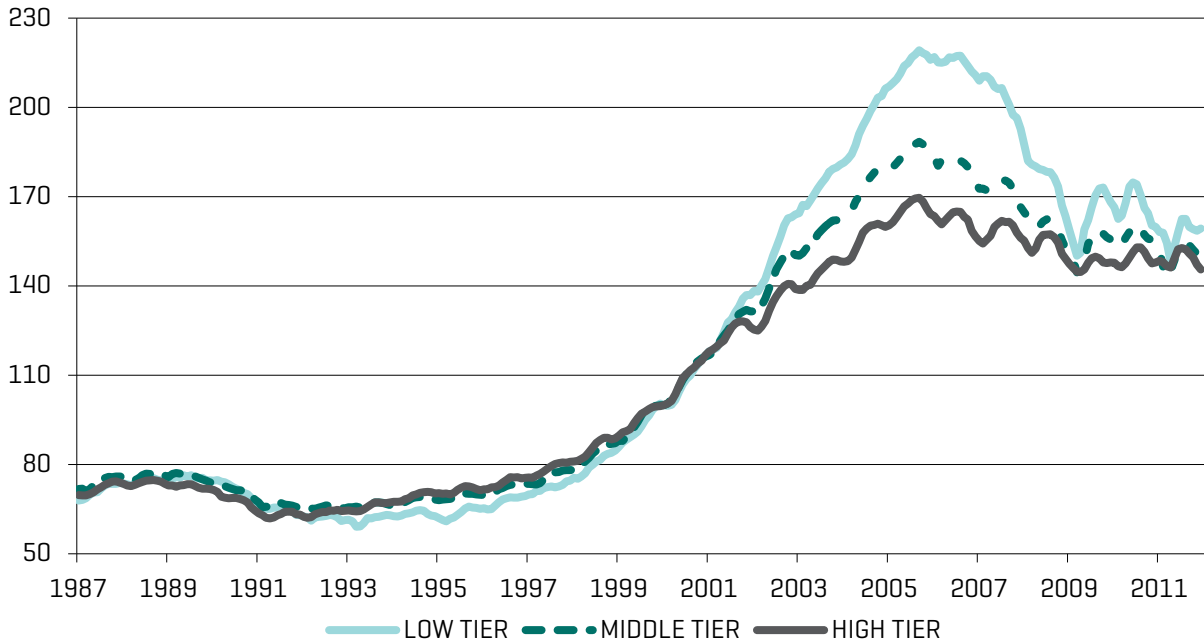
Exhibit 11: S&P/Case-Shiller Atlanta Tiered Price Indices



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Boston’s low-tier homes (see Exhibit 12) were the most responsible for the run-up in home prices in their market, but did not witness as severe a subsequent contraction as either Atlanta or Washington, D.C. (see Exhibits 11 and 13). At their peak, Boston’s low-tier market hit 219.24, which means that average prices were about 120% above their January 2000 level. The high-tier market was up about 70% versus 2000. From their peak, however, low-tier homes were down 27.3% in Boston as of December 2011, the mid-tier market was down 21.8%, the high-tier market was down 14.2%, and the aggregate market was down 18.6%. As measured by this peak through December 2011 change, the downside turmoil in the Boston markets was less severe than that of either Atlanta or Washington, D.C., even in the low-tier market. In December 2011, the low-tier market level for Boston was 159.28, or 60% above its January 2000 level.

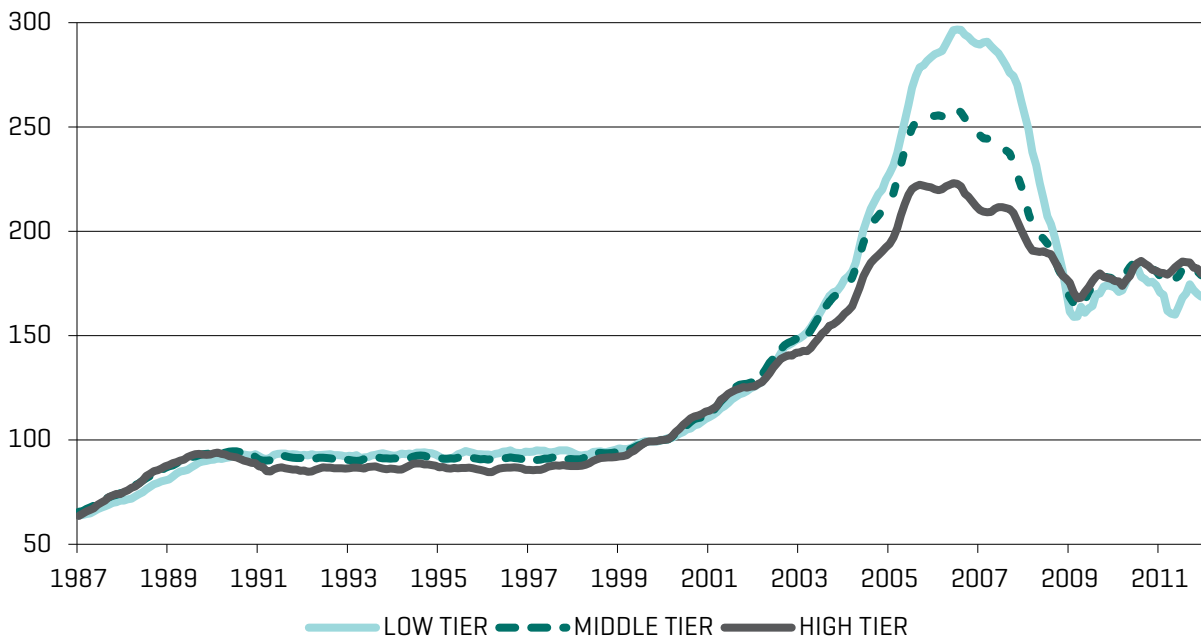
Exhibit 12: S&P/Case-Shiller Boston Tiered Price Indices



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

Washington, D.C.'s low-tier homes (see Exhibit 13) were the most responsible for the MSA's run-up and subsequent contraction in home prices. At their peak, Washington, D.C.'s low-tier market saw a level of 296.75, which means that average prices were almost 200% above their January 2000 level. The high-tier market was up about 125% versus 2000; while still significant, high-tier homes a bit more than doubled in price, whereas low-tier almost tripled. Since their 2009 low, the three tier markets have followed each other more closely. From their peak, Washington, D.C.'s low-tier homes are down 43.2%, the mid-tier market is down 31.0%, the high-tier market is down 19.4%, and the aggregate market is down 28.4%.

Exhibit 13: S&P/Case-Shiller Washington DC Tiered Price Indices



Sources: S&P Indices and Fiserv. Data through December 2011. Past performance is not an indication of future results.

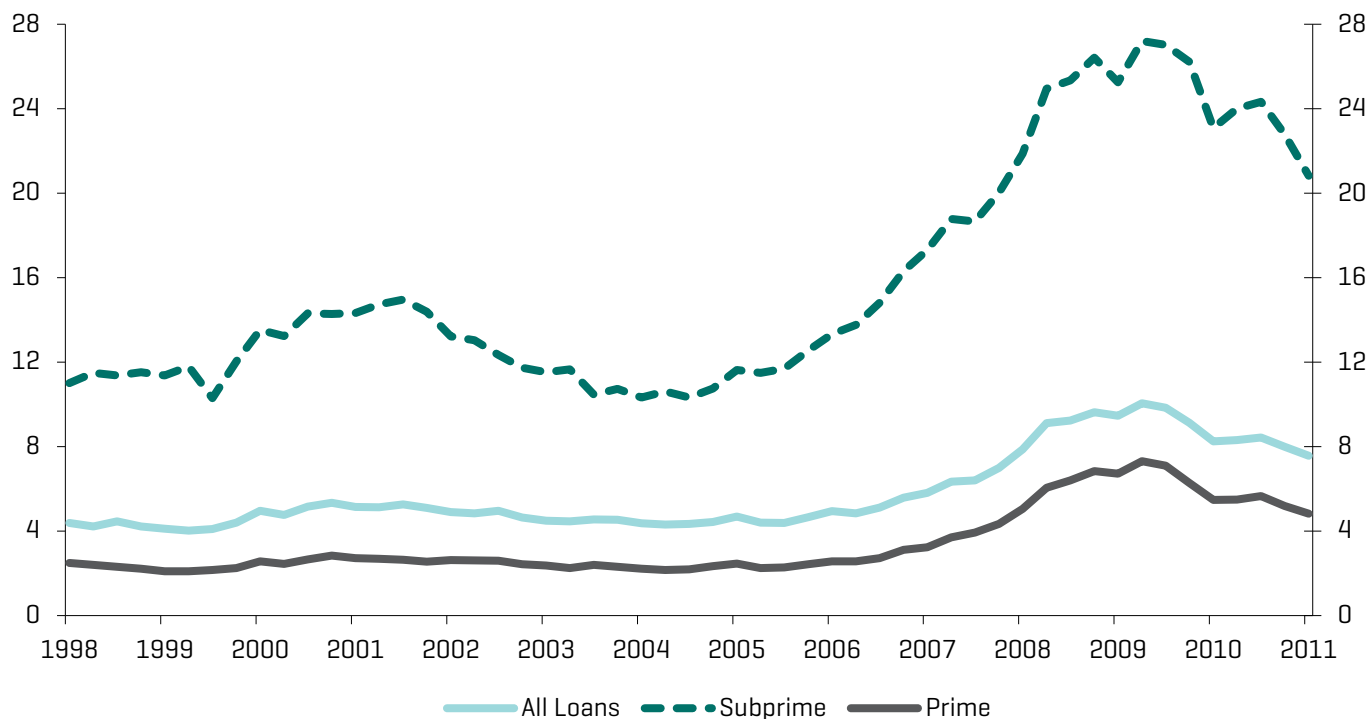
Delinquency and Default Rates

All types of homes and mortgages were affected by the housing crisis, but the absolute percentage of homes that are either behind payment or have entered foreclosure is much higher for those with subprime loans. However, in 2009 and 2010 it became apparent that even homes with prime mortgages were not immune to the housing crisis. Within that sector, both the rate of delinquencies and the percentage of homes entering foreclosure hit new highs. While still at relatively high levels, delinquency rates for all mortgage types began to fall in 2011.

Exhibit 14: Mortgage Delinquency and Foreclosure Rates (%)																
	2011				2010				2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Delinquency Rates (%)																
All loans	7.58	7.99	8.44	8.32	8.25	9.13	9.85	10.06	9.47	9.64	9.24	9.12	7.88	6.99	6.41	6.35
Prime loans	4.83	5.19	5.66	5.50	5.48	6.29	7.10	7.32	6.73	6.84	6.41	6.06	5.06	4.34	3.93	3.71
Subprime loans	20.83	22.78	24.33	24.01	23.09	26.23	27.02	27.21	25.26	26.42	25.35	24.95	21.88	20.03	18.67	18.79
Foreclosures Started in Quarter (%)																
All Loans	1.04	1.04	1.01	1.03	1.29	1.32	1.17	1.17	1.14	1.42	1.47	1.34	1.01	1.07	1.19	0.99
Prime loans	0.84	0.84	0.81	0.82	1.09	1.11	0.96	0.86	0.83	1.12	1.07	0.91	0.63	0.61	0.67	0.54
Subprime loans	2.81	3.25	3.01	2.98	3.23	3.33	2.97	3.29	3.51	3.70	4.49	4.55	3.72	4.13	4.70	4.06

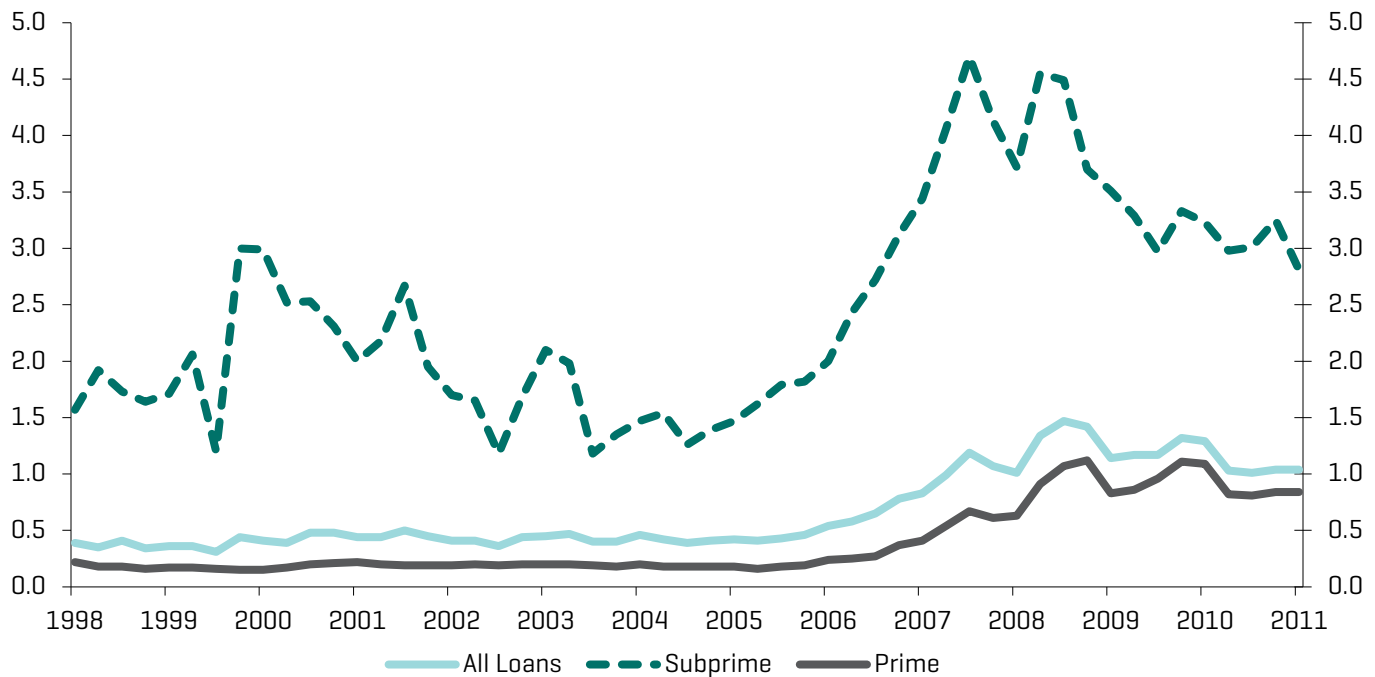
Source: Mortgage Bankers Association. Data through Q4,'11.

Exhibit 15: Mortgage Delinquency Rates (%)



Source: Mortgage Bankers Association. Data through Q4, '11.

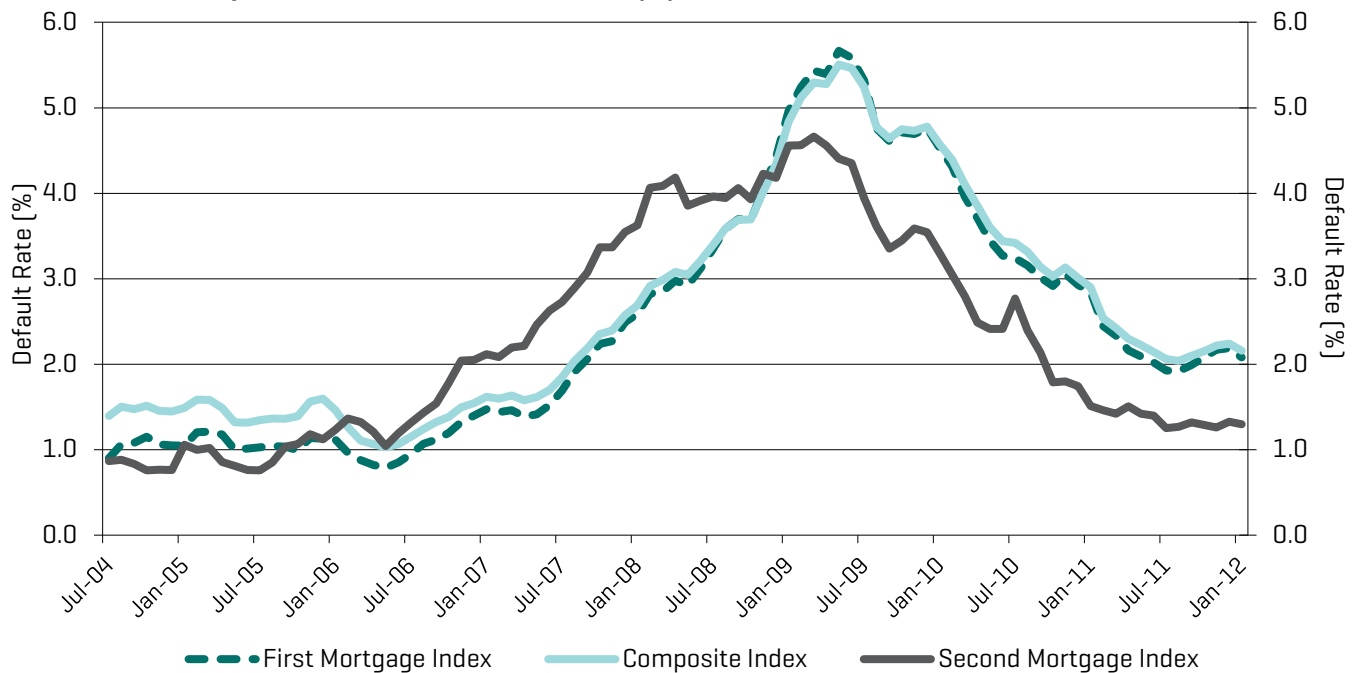
Exhibit 16: Mortgage Foreclosure Rates (%)



Source: Mortgage Bankers Association. Data through Q4, '11.

As seen in Exhibit 17, the weight of first mortgage default rates led the trend in the national rate, as measured by the S&P/Experian Consumer Credit Default Indices. First mortgage default rates rose in each of the months September through December 2011, and fell in January 2012, which was the same pattern for the composite. In January 2012, first mortgage default rates fell to 2.08%, from 2.19% in December 2011, reversing the increases seen in November and December. First mortgage default rates started to increase steadily in the middle of 2006, when the housing bubble burst. They reached their maximum rate of 5.67% in May 2009. The general trend for the following 2 ½ years has been an improvement in mortgage default rates, a good sign for the housing market and the economy.

Exhibit 17: S&P/Experian Consumer Default Rates (%)



Sources: S&P Indices and Experian. Data through January 2012. Past performance is not an indication of future results.

Seasonality

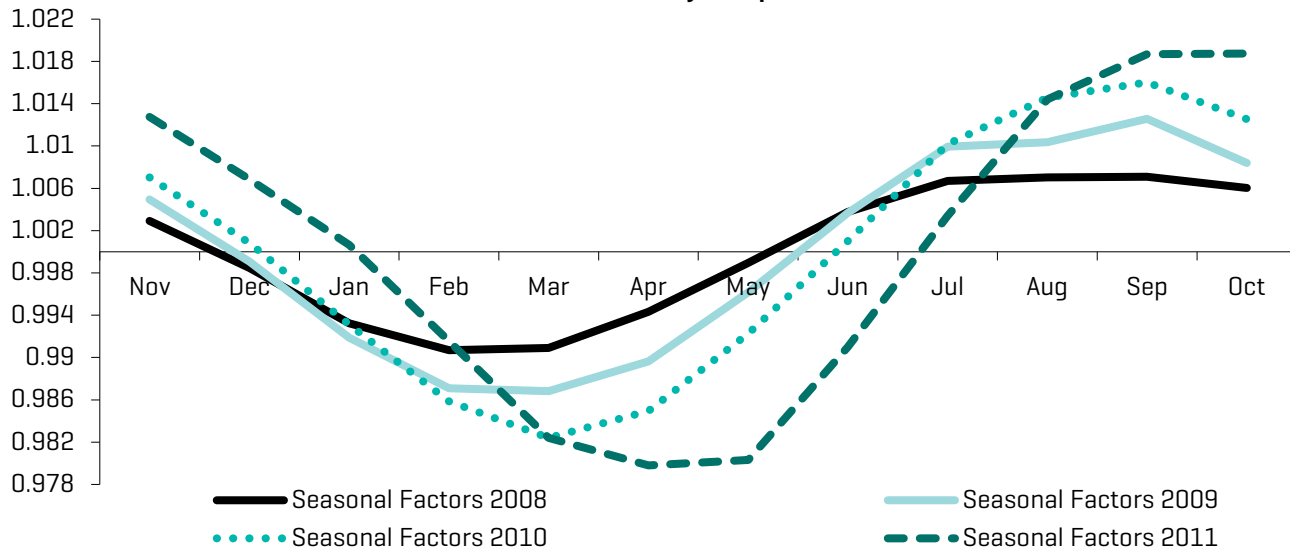
S&P Indices produces seasonally-adjusted versions of the S&P/Case-Shiller Home Price Indices. Single-family home prices (particularly the month-to-month percent changes) follow a seasonal pattern since they are largely occupied by families with children. Home-buying patterns typically revolve around the school year, with the belief that new home buyers want to be settled in their homes when the school year begins each September, thus boosting relative demand for home purchases in the spring/summer months.

Early in 2010, the S&P/Case-Shiller Home Price Index Committee released a document stating that the turmoil in the housing market may have distorted the normal seasonal patterns in home prices¹. As a result we felt that while seasonality certainly still exists in home prices, seasonally-adjusted statistics were less reliable indicators than the non-seasonally adjusted data and their annual rates of change.

Exhibit 18 illustrates this point. The four lines represent the seasonal factors that were calculated in December of each year, with October data representing each year's latest data point. Between 2008 and 2011, the seasonal factors grew from a range of 0.9907–1.0071 in 2008 to a range of 0.9798–1.0187 in 2011. In stable markets, seasonal factors are expected to remain fairly stable through time, giving analysts a means to predict the true patterns of certain economic statistics. It is clear that, while home prices do follow a seasonal pattern, seasonal factors have become more volatile.

¹ See *S&P/Case-Shiller Home Price Indices and Seasonal Adjustment*, April 2010.

Exhibit 18: Seasonal Factors for the S&P/Case-Shiller 20-City Composite



Sources: S&P Indices and Fiserv. Data through December 2011.

Exhibit 19 breaks out the seasonal patterns of the 10-City and 20-City Composite Indices. The seasonality of data is most readily apparent in the differences in the monthly percent changes between the seasonally adjusted (SA) and the not-seasonally adjusted (NSA) data. For both the 10-City and 20-City Composites Indices during the months of May through August, the monthly percent changes for the NSA data are, on average, 0.9% higher (more positive) than their SA counterparts, meaning that in the buying season there is a natural increase of about 0.9% in prices versus the other months, likely due to the increase in relative demand. The opposite is true for the months of November through February, where the monthly percent changes for the NSA data are, on average, 0.7% lower (less positive) than their SA counterparts.

It should be noted that these differences are larger than what we reported in the prior three years, when the average differences between the same months were approximately 0.7% in 2010, 0.5% in 2009 and 0.4% in 2008. This supports the view that the seasonal patterns seen in more stable housing markets have become more volatile in the past few years. Some analysts we have spoken with believe this is the result of the shift in mix among sales of homes in foreclosure during the past few years (versus the historic average). Such a shift in the mix of a traditionally non-seasonal variable could skew the pattern from its historic trend. In other words, since foreclosures are a market-driven rather than a seasonal issue, any increase/decrease in the relative mix of foreclosed homes in sales data could have magnified traditional seasonal patterns seen in home prices.

Exhibit 19: S&P/Case-Shiller Home Price Indices Seasonal Comparison

	Monthly Percent Change				Differences	
	Composite-10 SA	Composite-10 NSA	Composite-20 SA	Composite-20 NSA	Composite-10	Composite-20
Nov-10	-0.3%	-0.9%	0.3%	-0.2%	-0.6%	-0.6%
Dec-10	-0.4%	-0.9%	0.4%	-0.2%	-0.6%	-0.6%
Jan-11	-0.3%	-1.1%	0.5%	-0.4%	-0.8%	-0.9%
Feb-11	-0.4%	-1.3%	0.0%	-0.9%	-0.9%	-0.9%
Mar-11	-0.6%	-1.0%	-0.2%	-0.5%	-0.4%	-0.3%
Apr-11	0.5%	0.6%	0.8%	0.9%	0.1%	0.1%
May-11	0.0%	1.0%	0.3%	1.3%	1.1%	1.0%
Jun-11	-0.1%	1.0%	-0.2%	1.0%	1.1%	1.2%
Jul-11	-0.1%	0.9%	-0.4%	0.6%	1.1%	1.0%
Aug-11	-0.3%	0.1%	-0.7%	-0.3%	0.4%	0.4%
Sep-11	-0.6%	-0.6%	-0.9%	-0.8%	0.1%	0.0%
Oct-11	-0.7%	-1.3%	-0.8%	-1.4%	-0.6%	-0.5%

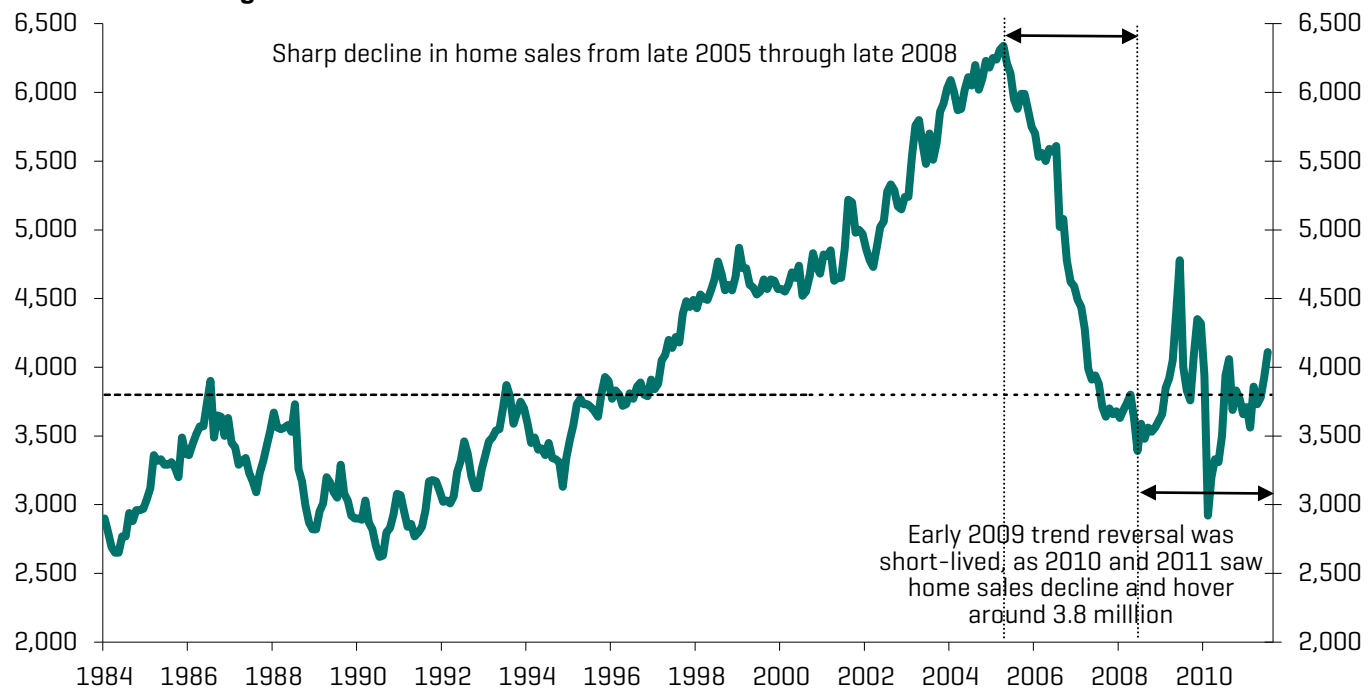
Sources: S&P Indices and Fiserv. Data as of December 2011.

What Are the Other Data Telling Us?

This report summarizes the 2011 housing market as seen through the eyes of the S&P/Case-Shiller Home Prices Indices. Exhibits 20 and 21 tell the same story through sales and construction. The housing market has been in a five-year recession and the turnaround has not materialized. Although there were some signs of a bottoming in early 2009 and early 2011, more recent data have called that into question.

After seeing some improvement in late 2009, existing home sales fell back to 15-year lows in July 2010. During the same month, the number of months needed to work off the current inventory rose to 11.8 months, a record high in the near 30-year history of those statistics. While not as pronounced, 2011 saw a similar pattern, with sales falling in the summer months. Although there was some improvement as 2011 ended, sales have only been hovering around a 3.8 million annual pace, well below the averages posted in the early to mid 2000s.

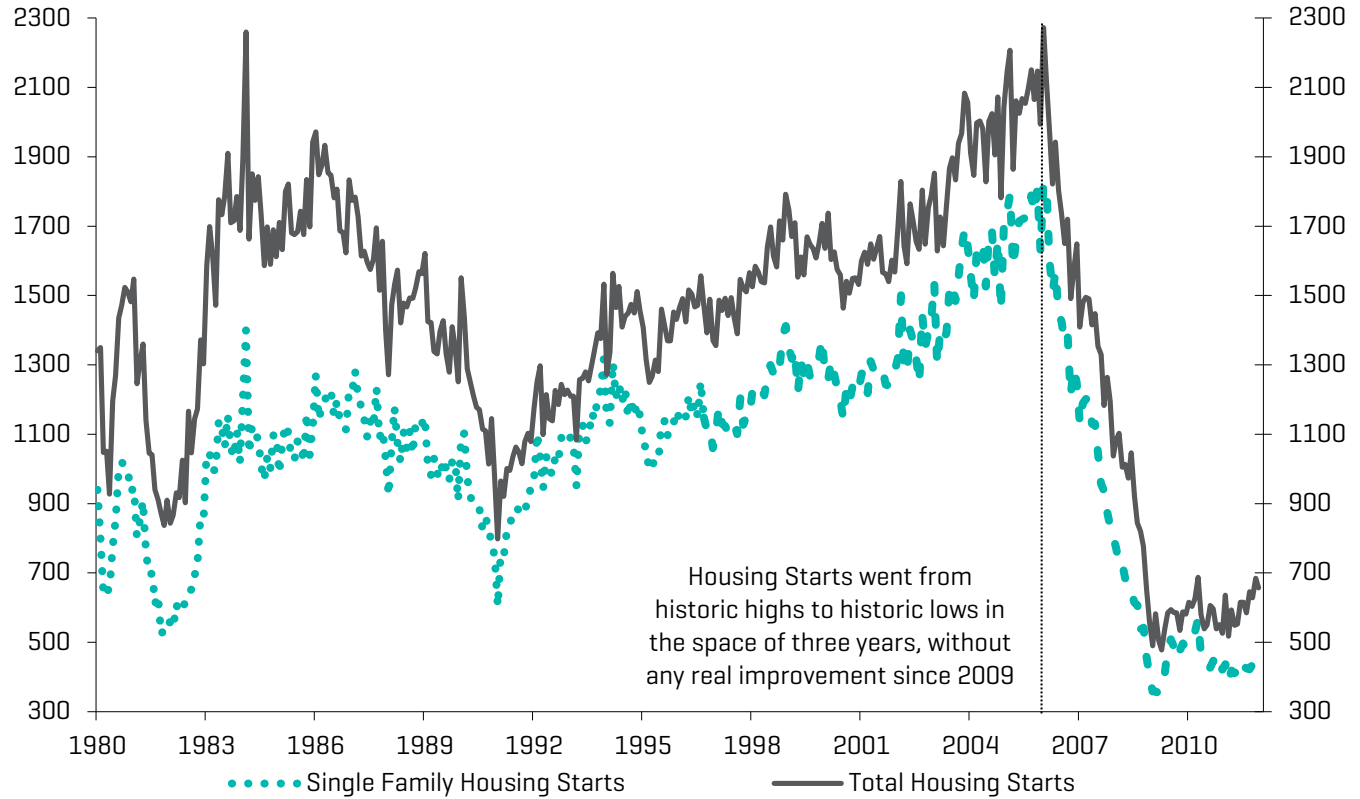
Exhibit 20: Existing Home Sales



Source: National Association of Realtors, SAAR. Data through December 2011.

As of the end of 2011, housing starts are still registering lower levels than they have in at least 30 years, below the lows of the early '80s and early '90s recessions. They reached their recent lows in early 2009, but have shown very little recovery in the three years since, particularly for single-family homes.

Exhibit 21: Housing Starts



Source: U.S. Census Bureau, SAAR. Data through December 2011.

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