FRANKLIN TEMPLETON INVESTMENTS

Franklin High Yield Tax-Free Income Fund —Class A

Product Profile First Quarter 2016

FUND CHARACTERISTICS (AS OF 3/31/16)

NASDAQ Symbol	FRHIX
Fund Inception Date	3/18/86
Dividends	Monthly on or near the last business day
Investment Style	Tax-Free Income
Benchmark	Barclays Municipal Bond Index
Lipper Classification	High Yield Municipal Debt Funds
Morningstar Category™	High Yield Muni
Total Net Assets—All Share Classes	8,249 million
Number of Holdings	711
Maximum Initial Sales Charge	4.25%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™

Traditional

★★★

Load Waived

★★★★

As of March 31, 2016 the fund's Class A shares received a traditional 3 star overall Morningstar Rating™ and a load waived 4 star Morningstar Rating™, measuring risk-adjusted returns against 167, 149 and 98 U.S.-domiciled High Yield Muni funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Load waived Class A share Morningstar Ratings do not include front-end sales charges and are intended for investors who have access to such purchase terms (e.g., fee-based programs and participants of a defined contribution plan). Investors should contact their financial advisor to determine their eligibility to purchase Class A shares without paying the sales charge.

FUND DESCRIPTION

The fund seeks to provide investors with a high current yield exempt from federal income taxes. Its secondary goal is capital appreciation to the extent possible and consistent with the fund's principal investment goal. The fund may invest in securities rated in any rating category.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended March 31, 2016 (%)

	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (3/18/86)
With Sales Charge	-2.33	-2.33	-0.67	2.23	6.02	4.41	6.22
Without Sales Charge	2.04	2.04	3.70	3.71	6.94	4.87	6.37
Barclays Municipal Bond Index	1.67	1.67	3.98	3.63	5.59	4.86	6.25

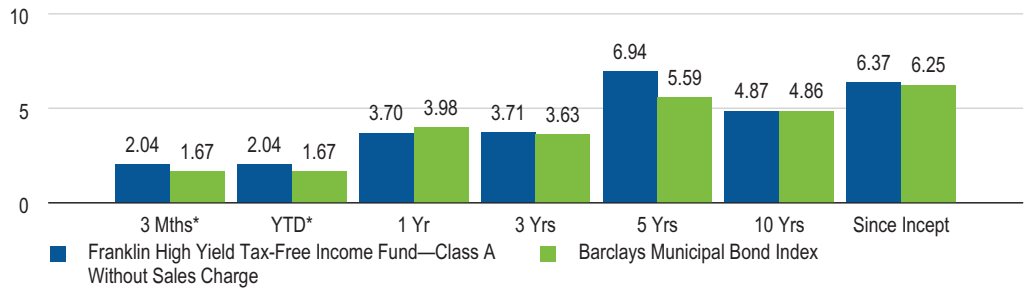
Total Annual Operating Expenses—*0.65%*

30-Day Standardized Yield (As of 3/31/16)— 2.46%

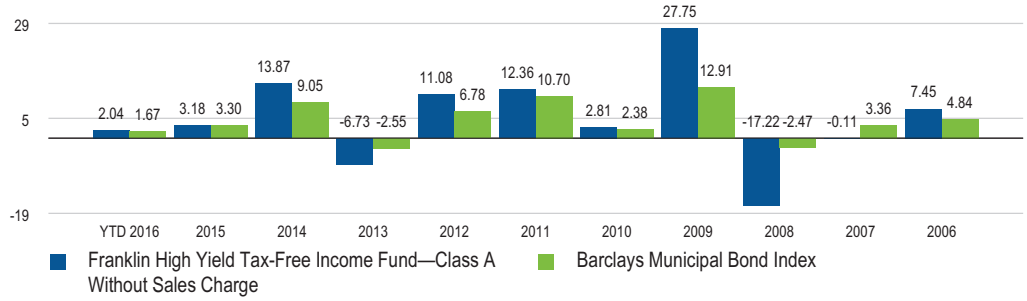
Taxable Equivalent Yield (As of 3/31/16)—4.35%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Average Annual Total Returns for Periods Ended March 31, 2016 (%)



Calendar Year Returns As of March 31, 2016 (%)



If the Fund's sales charge had been included, the returns would have been lower.

The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

The Taxable-Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect on December 2015.

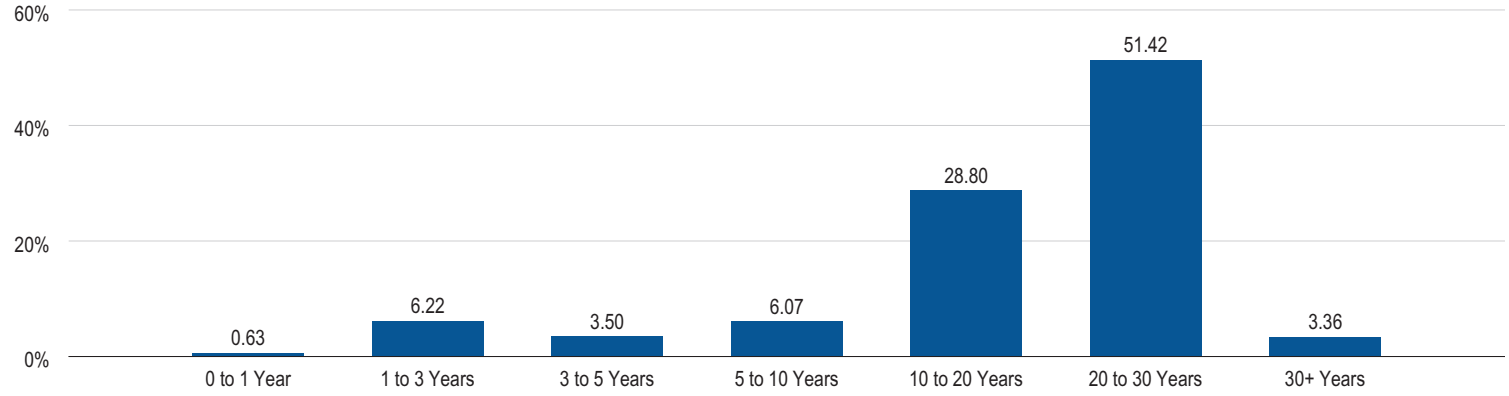
*Cumulative Total Returns.

For information related to the "Fund Description," "Fund Characteristics," "Third-Party Fund Data," and "Performance Data" sections, please see Explanatory Notes.

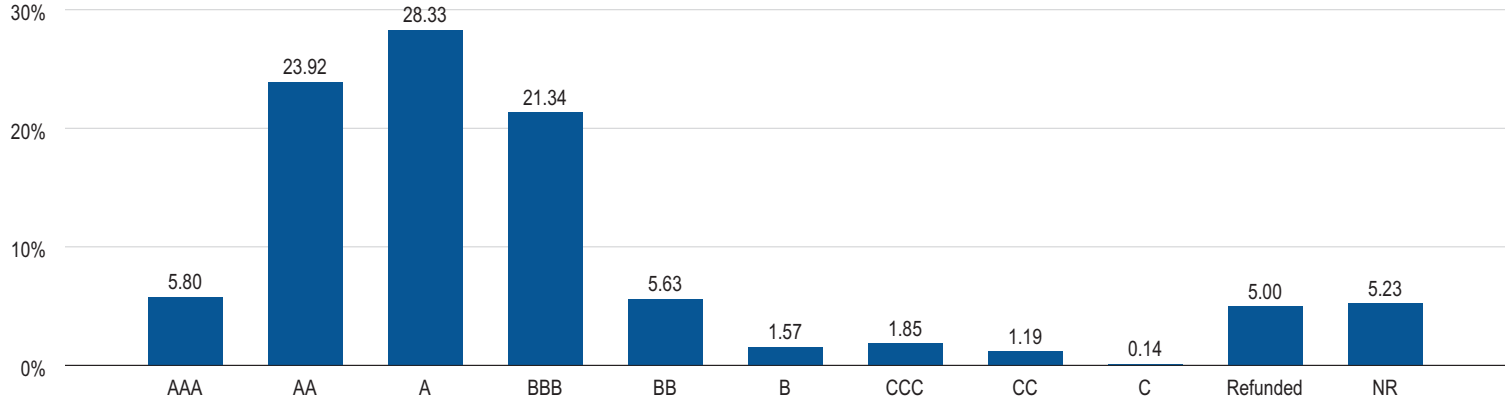
Not FDIC Insured | May Lose Value | No Bank Guarantee

PORTFOLIO DIVERSIFICATION (AS OF 3/31/16)—Fund

Maturity Weightings



Quality Weightings



State / U.S. Territory Exposure

	%		%
California	17.81	New York	3.83
Texas	9.12	New Jersey	3.79
Florida	7.36	Colorado	3.29
Illinois	6.03	Puerto Rico	3.15
Michigan	6.03	Other	35.76
Georgia	3.83		

Sector Breakdown

	%
Corporate Backed	4.64
General Obligation Bonds	7.69
Higher Education	2.65
Hospital & Health Care	16.43
Housing	1.77
Other Revenue Bonds	4.68
Refunded	11.99
Subject to Government Appropriation	5.20
Tax Supported Debt	7.55
Transportation	17.18
Utilities	19.45
Cash & Cash Equivalents	0.76

Quality Weightings: Securities, except for those labeled Not Rated ("NR"), are assigned ratings by one or more Nationally Recognized Statistical Rating Organizations ("NRSRO"), such as Standard & Poor's, Moody's and Fitch, that can be considered by the investment manager as part of its independent securities analysis. When ratings from multiple agencies are available, the highest is used, consistent with the portfolio investment process. Ratings reflect an NRSRO's opinion of an issuer's creditworthiness and typically range from AAA (highest) to D (lowest). The Refunded category consists of refunded bonds secured by U.S. government or other high-quality securities and not rerated by an NRSRO. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. Cash and equivalents are excluded from this breakdown.

For information related to the "Portfolio Diversification" section, please see Explanatory Notes.

PORTFOLIO CHARACTERISTICS (AS OF 3/31/16)—Fund vs. Barclays Municipal Bond Index

	Fund	Benchmark
Average Duration	5.75 Yrs	5.96 Yrs
Average Weighted Maturity	19.30 Yrs	5.55 Yrs
AMT Exposure	5.69%	N/A
Annual Turnover Ratio (As of 2/28/15)	8.28%	N/A

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics (As of 3/31/16)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	5.08	4.79	6.57
Alpha	-1.44	-0.68	-1.07
Beta	1.45	1.37	1.32
Sharpe Ratio	0.72	1.44	0.59
Information Ratio	0.05	0.74	0.00
Tracking Error	2.02	1.86	3.45
R-Squared	93.19	91.70	76.21

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

GLOSSARY

AMT Exposure: Percentage of a fund's assets invested in bonds with income subject to the alternative minimum tax (AMT).
Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.
Annual Turnover Ratio: Percentage of a fund's holdings replaced with other holdings during a fund's most recent full fiscal year. A fund's fiscal year end can be found in a fund's current summary prospectus and/or prospectus.
Average Duration: Average Duration is calculated according to the modified duration formula. Duration is an indication of the fund's sensitivity to changes in interest rates. Please note, duration numbers will change as market conditions change; therefore duration should not solely be relied upon to indicate a municipal bond fund's potential volatility.
Average Weighted Maturity: An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. The calculation uses the weighted average time to the receipt of all future cash flows for all holdings. Also known as 'average life' for fixed-term products. The weighted average maturity of a fund reflects the maturity of the underlying issues, based on the size of each holding.
Beta: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.
Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.
R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.
Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.
Standard Deviation: A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.
Tracking Error: Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error.

Alpha, Beta, Information Ratio, R-Squared, and Tracking Error are measured against the Barclays Municipal Bond Index.
For information related to the “Portfolio Characteristics” section, please see Explanatory Notes.

MARKET REVIEW

The first three months of 2016 were a tale of two halves, with the first half of the period marked by extreme turbulence and sharp declines, followed by a sharp rebound in the second half of the period. Uncertainty regarding global economic growth prospects, concerns regarding China and the potential for higher US interest rates weighted on markets early in the period. Rapid declines in commodity prices, stocks and interest rates created a risk-off environment through mid-February. In response, aggressive quantitative-easing programs were announced by the European Central Bank and the Bank of Japan, and more dovish comments by the US Federal Reserve (Fed) helped stabilize and reverse the downturn in financial markets. Despite the extreme volatility in the financial markets during the period, the US economy remained relatively healthy. The US labor market continued to expand, while the unemployment rate ended the period at 5.0%.

In the first quarter of 2016, the municipal bond market gained 1.67%, as measured by the Barclays Municipal Bond Index, posting a third consecutive quarter of positive results. Despite solid performance, the broad municipal bond market underperformed US Treasuries, which returned 3.20% over the quarter, as measured by the Barclays U.S. Treasury Index, given the risk-off market environment witnessed during the first two months of the year.

Over the quarter, lower-quality municipal bonds generally outperformed higher-quality municipal bonds within the investment-grade space. BBB rated bonds were the best-performing area within the investment-grade space over the period, while AAA and AA rated bonds slightly underperformed the broad municipal bond index. The high-yield area of the municipal bond market outperformed investment-grade municipal bonds, as the tobacco sector posted strong performance. Overall, performance was positive across the yield curve, with municipal bonds in the long-maturity range outperforming the rest of the curve. Municipal bonds with maturities of 10 years or less underperformed the broad municipal bond market over the quarter.

The municipal bond market's positive first-quarter performance was driven by several factors, including a risk-off market environment, the flattening of the municipal bond yield curve, strong flows into retail vehicles and low net supply relative to historical averages. Net supply remained very low through the first quarter. A majority of new issues has continued to be dominated by refunding issuance instead of new capital as issuers have continued to take advantage of the low-interest-rate environment and replace older, higher-cost bonds with lower-cost debt. On the demand side, retail vehicle flows remained positive over the quarter and increased from the year prior. We expect to see continued demand for the asset class given that we believe relative value remains attractive versus other areas of the fixed income market, especially on a tax-adjusted basis.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

For the first quarter of 2016, the fund's exposure to below-investment-grade municipal securities helped performance. The fund's focus on the long end of the yield curve also contributed to returns as this area of the curve outperformed intermediate- and shorter-maturity municipal bonds. Conversely, our prerefunded exposure, although limited, detracted from performance as prerefunded municipal bonds significantly underperformed the broad municipal bond market over the quarter. Our limited positions in higher-quality AAA and AA rated bonds also weighed on results.

Portfolio Positioning

We continued to maintain our focus on seeking tax-free income during the period. Further, given the volatility in the market, we were active in looking to improve the income potential of our investments, which we believe is aided by our extensive research capabilities.

Outlook & Strategy

On the credit front, there has been little change in underlying market fundamentals, in our view, as general creditworthiness and low default rates remained stable. Therefore, we believe municipal bond performance is likely to be driven largely by technical factors. There continue to be ongoing developments with select issuers such as Puerto Rico, but we believe these isolated issues are not driving broader performance in the market. Over the quarter, the Fed kept its policy rate unchanged, which was in line with market expectations. Going forward, we would welcome a slow rise in the level of long-term rates. While such a move would have a negative effect on the price of long-term bonds, a rate increase would allow us to invest at higher levels of interest and, as a result, potentially increase the income profile of our portfolios. We believe income continues to be the best reason for investors to invest in municipal bonds, and higher long-term interest rates could allow us to satisfy that important need.

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

Investment Philosophy And Process

Investment Philosophy

Focus on Income

Franklin municipal managers aim to maximize monthly tax-free income for shareholders. Historically, the income return from municipal bonds has contributed much more to municipal bond returns than changes in municipal bond prices. Additionally, Franklin managers generally limit fund exposure to bonds with income that is subject to the Alternative Minimum Tax.

No Leverage, No Derivatives, No Options

Franklin managers avoid investment practices that may expose shareholder capital to unnecessary risk. For example, we don't use leverage or invest in derivatives or futures, because they can increase portfolio volatility.

Strict Internal Analysis

Our analysts are responsible for conducting research on credit-driven securities in the municipal market. They are responsible for evaluating an issuer's credit strengths and weaknesses and working with the portfolio managers on select fund purchase and sale decisions.

Buy and Hold for the Long Term

Franklin managers are focused on seeking to maximize income; we don't actively trade bonds to try to capture capital gains. We typically sell holdings only if we see an opportunity to enhance a fund's portfolio structure or its income earning potential.

Investment Process

Market Analysis	Research	Portfolio Construction
On a daily basis, we analyze current market conditions, including: • Trading activity • Yield spreads • Call option spreads • New offerings • Secondary market offerings • Credit ratings • Event risk	We search for high-quality, undervalued bonds that we believe should provide a high level of income until maturity. We often make site visits to identify potential problems and opportunities that may not be readily visible on paper. Analysts focus on credit-driven bond issues where we believe they can add the most value to the security selection process.	We build portfolios with diversification in mind, taking into consideration allocations to sectors, regions, coupons, calls, maturities and quality, as appropriate. We don't make significant allocation shifts based on expected market conditions. Rather, we look for the best value in the marketplace from an income-oriented perspective.

INVESTMENT AND MANAGEMENT TEAM (AS OF 3/31/16)

Franklin High Yield Tax-Free Income Fund Management Team	Years with Firm	Years Experience
John Wiley	26	26
Francisco Rivera	21	22
Daniel Workman, CFA	12	13
Franklin Templeton Fixed Income Management Team	**Years with Firm**	**Years Experience**
Christopher Molumphy, CFA - Chief Investment Officer	27	29
Sheila Amoroso, Co-Director, Franklin Municipal Bond Department	30	30
Rafael Costas, Co-Director, Franklin Municipal Bond Department	29	30
Franklin Templeton Fixed Income Group	**Number of Members**	**Average Years Experience**
Portfolio Managers	55	21
Portfolio Managers/Analysts	21	18
Research Analysts	62	13
Traders	13	19
Franklin Municipal Bond Department	**Number of Members**	**Average Years Experience**
Portfolio Managers	15	21
Research Analysts	17	19

WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest rate movements, the fund's yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Investments in lower-rated bonds include higher risk of default and loss of principal. Puerto Rico municipal bonds have been impacted by recent adverse economic and market changes, which may cause the fund's share price to decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. The fund may invest a significant part of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project would likely affect all similar projects, thereby increasing market risk.

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For information related to the "Investment Philosophy" section, please see Fund Description and Explanatory Notes.

EXPLANATORY NOTES

FUND DESCRIPTION

Dividends are generally subject to state and local taxes, if any. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

FUND CHARACTERISTICS

Number of Holdings: All portfolio holdings are subject to change.

THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 3/31/16. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Franklin High Yield Tax-Free Income Fund received a traditional Morningstar Rating of 2, 2 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Franklin High Yield Tax-Free Income Fund received Morningstar Ratings of 3, 3 and 4 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. **Past performance does not guarantee future results.** ©2016 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance.
Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

On May 1, 1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance.

PORTFOLIO DIVERSIFICATION

Maturity/Quality/State / U.S. Territory Exposure/Sector Breakdowns: Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

PORTFOLIO CHARACTERISTICS

The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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