



FRANKLIN TEMPLETON
INVESTMENTS

Franklin High Yield Tax-Free Income Fund —Class A

Product Profile

Fourth Quarter 2014

FUND CHARACTERISTICS (AS OF 12/31/14)

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	8,406 million
Number of Holdings	694
Maximum Initial Sales Charge	4.25%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™

Traditional



Load Waived



As of December 31, 2014 the fund's Class A shares received a traditional 3 star overall Morningstar Rating™ and a load waived 3 star Morningstar Rating™, measuring risk-adjusted returns against 155, 139 and 95 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 December 31, 2014 (%)

	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (3/18/86)
With Sales Charge	-2.51	9.07	9.07	4.14	5.47	4.56	6.31
Without Sales Charge	1.83	13.87	13.87	5.67	6.39	5.01	6.46
Barclays Municipal Bond Index	1.37	9.05	9.05	4.30	5.16	4.74	6.35

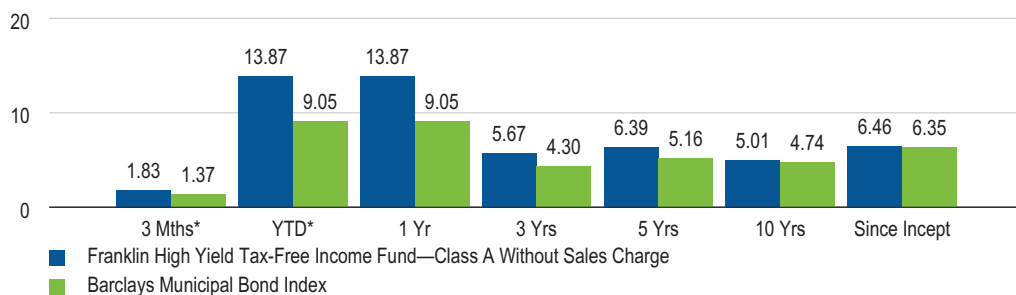
Total Annual Operating Expenses—0.63%

30-Day Standardized Yield (As of 12/31/14)—2.88%

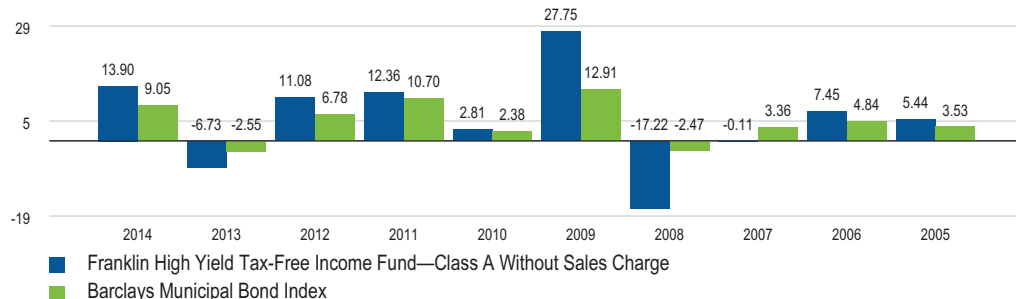
Taxable Equivalent Yield (As of 12/31/14)—5.09%

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 December 31, 2014 (%)



Calendar Year Returns As of December 31, 2014 (%)



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 2014.

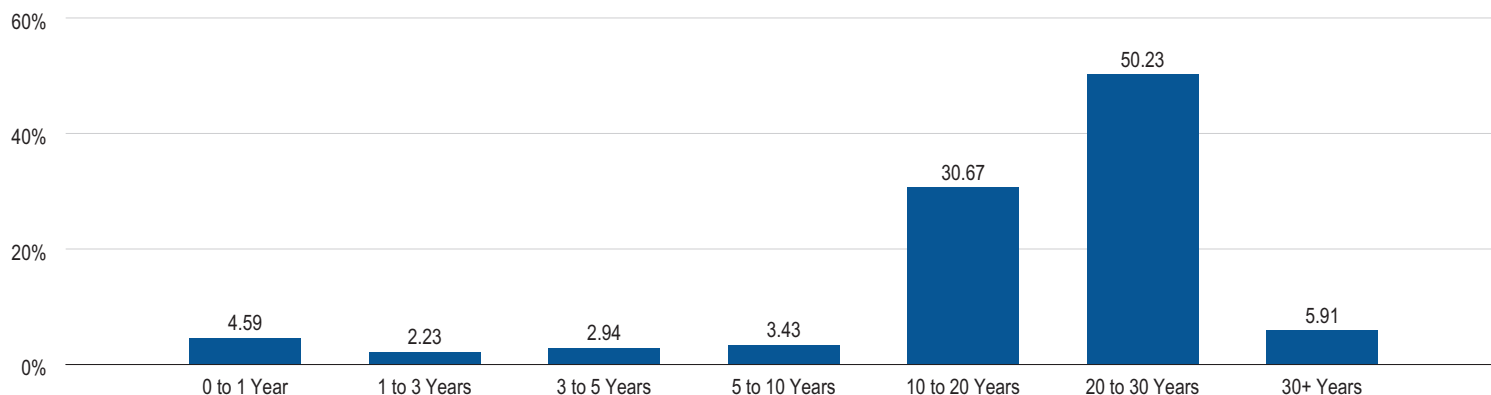
*Cumulative Total Returns.

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

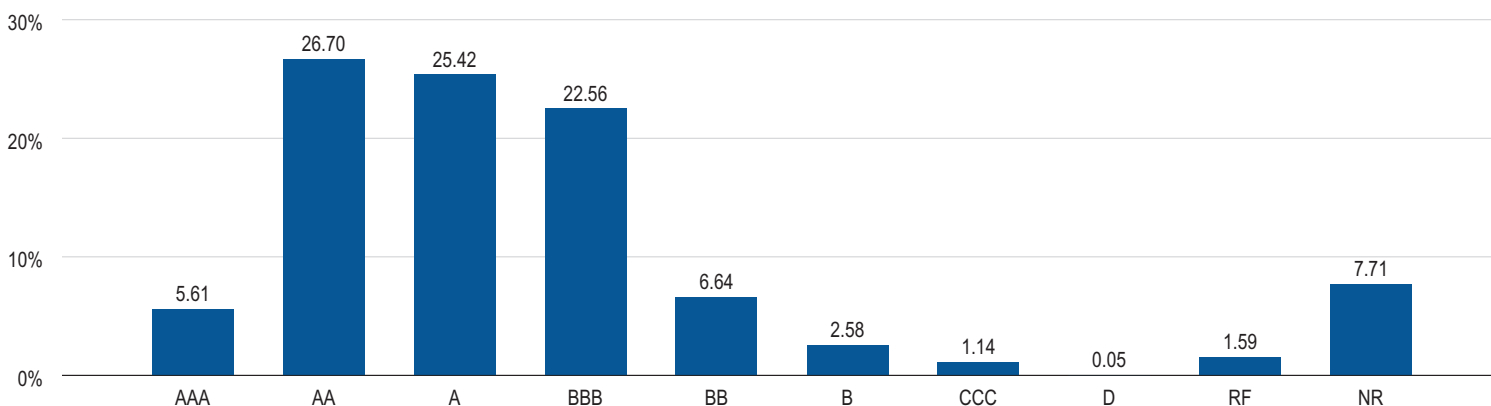
Not FDIC Insured | May Lose Value | No Bank Guarantee

PORTFOLIO DIVERSIFICATION (AS OF 12/31/14)—Fund

Maturity Weightings



Quality Weightings



State / U.S. Territory Exposure

	%		%
California	18.64	New York	4.35
Texas	8.07	Colorado	3.90
Florida	6.74	New Jersey	3.45
Illinois	5.92	Puerto Rico	4.90
Michigan	5.66	Other	38.37

Sector Breakdown

	%
Utilities	19.30
Transportation	16.50
Hospital & Health Care	16.12
Tax Supported Debt	9.21
General Obligation Bonds	9.18
Refunded	6.98
Subject to Government Appropriation	6.08
Corporate Backed	4.98
Other Revenue Bonds	4.43
Cash & Cash Equivalents	4.05
Higher Education	2.09
Housing	1.07

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. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from multiple agencies are available, the highest is used. The Refunded ("RF") category consists of refunded bonds with an implied Aaa rating since they are secured by U.S. government securities. The Not Rated category consists of rateable securities that have not been rated by an NRSRO. Cash and equivalents (defined as bonds with stated maturities, or that can be redeemed at intervals, of seven days or less), as well as short-term bonds (defined as bonds maturing in more than seven days but less than one year) are excluded from this breakdown. This methodology differs from that used in Fund shareholder reports. For information related to the "Portfolio Diversification" section, please see Explanatory Notes.

PORTFOLIO CHARACTERISTICS (AS OF 12/31/14)—Fund vs. Barclays Municipal Bond Index

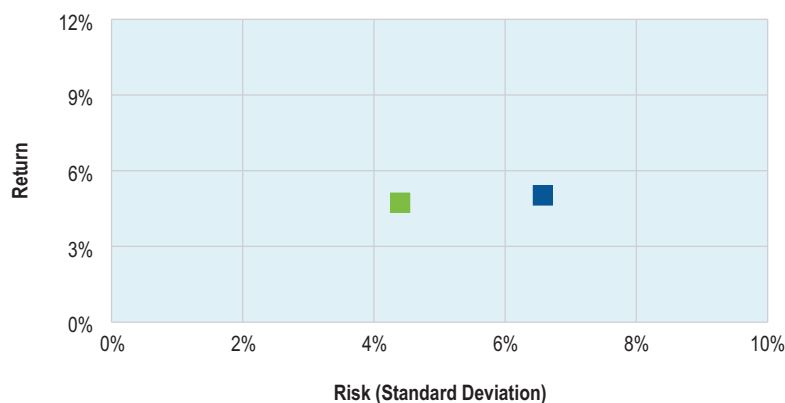
	Fund	Benchmark
Average Duration	6.11 Yrs	6.07 Yrs
Average Weighted Maturity	20.70 Yrs	5.47 Yrs
AMT Exposure	5.23%	N/A
Annual Turnover Ratio (As of 2/28/14)	17.08%	N/A

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics
(As of 12/31/14)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	5.58	5.34	6.57
Alpha	-0.64	-0.62	-0.61
Beta	1.48	1.37	1.30
Sharpe Ratio	1.01	1.19	0.55
Information Ratio	0.63	0.63	0.08
Tracking Error	2.17	1.98	3.47
R-Squared	94.88	93.14	75.68

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.

Risk vs. Return
10-Year Period Ended 12/31/14

■ Franklin High Yield Tax-Free Income Fund—Class A Without Sales Charge
■ Barclays Municipal Bond Index

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

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 (Tax Free): 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.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

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.

MARKET REVIEW

After a poor, weather-distorted start to the year, US economic growth strengthened during the balance of 2014. Although the plunge in oil prices during the second half of the year triggered turmoil and worries of slower economic growth internationally, the US economy benefited from lower oil prices. Improving capital spending and manufacturing activity, solid gains in employment, higher consumer confidence and stronger retail sales all demonstrated US economic growth. All the while, inflation remained well below the Federal Reserve's unofficial 2.0% target rate, with the personal consumption expenditures price index up just 1.2% year-over-year in November. The Treasury market produced solid results for the quarter as the long-end of the yield curve continued to flatten. The 30-year Treasury had a strong return for the fourth quarter (as its yield fell to 2.75% at year-end from 3.21% on September 30). Emerging-market, investment-grade corporate bond and high-yield corporate bond returns were dragged down by global economic growth concerns and volatility in energy-related issuers.

The municipal bond market posted a positive return of 1.37% for the fourth quarter of 2014, according to the Barclays Municipal Bond Index, underperforming US Treasuries, which returned 1.93%, according to the Barclays U.S. Treasury Index.

Over the quarter, higher-quality municipal bonds generally underperformed lower-quality municipal bonds within the investment-grade space. Baa rated bonds were the best-performing area within the investment-grade space, while Aaa and Aa rated bonds underperformed the broad municipal bond index. Over the quarter, high-yield municipal bonds underperformed the broad market. Performance was mostly positive across the yield curve, with municipal bonds in the longer-maturity range outperforming the rest of the curve. Municipal bonds with maturities of 10 years or less underperformed the broad index for the quarter.

The municipal bond market's positive fourth-quarter performance was driven by several factors, including a continued rally in rates, continued flows into retail vehicles and limited supply in the market (although supply did tick up in December). There has been little change in the underlying fundamentals in the market, in our view, leaving performance to be driven largely by these technical factors. While there was action in the isolated bankruptcy cases over the period, none of the news had a material impact on the broader market.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

During the fourth quarter of 2014, the fund's relative performance was helped by its exposure to longer-maturity bonds. Conversely, our positions, although limited, in higher-quality Aaa and Aa rated securities, detracted from returns.

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

We believe the overall health of the municipal bond market has remained strong, with little change to the fundamental landscape over the period. While cost pressures still exist, states and localities have generally been seeing their fiscal positions improve, although this recovery remained uneven across municipalities. In addition, municipal bond defaults continued to remain at low historical levels in 2014's fourth quarter. We continue to focus on the growing financial threat that many cities and a few states are facing with public pension obligations and other retirement benefits, and this continues to be our single biggest credit factor when analyzing bond issues.

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
<p>On a daily basis, we analyze current market conditions, including:</p> <ul style="list-style-type: none"> • Trading activity • Yield spreads • Call option spreads • New offerings • Secondary market offerings • Credit ratings • Event risk 	<p>We search for high-quality, undervalued bonds that we believe should provide a high level of income until maturity.</p> <p>We often make site visits to identify potential problems and opportunities that may not be readily visible on paper.</p> <p>Analysts focus on credit-driven bond issues where we believe they can add the most value to the security selection process.</p>	<p>We build portfolios with diversification in mind, taking into consideration allocations to sectors, regions, coupons, calls, maturities and quality, as appropriate.</p> <p>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.</p>

INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/14)

Franklin High Yield Tax-Free Income Fund Management Team	Years with Firm	Years Experience
John Wiley	25	25
Francisco Rivera	20	21
Daniel Workman, CFA	11	12
Franklin Templeton Fixed Income Management Team	Years with Firm	Years Experience
Christopher Molumph, CFA - Chief Investment Officer	26	28
Sheila Amoroso, Co-Director, Franklin Municipal Bond Department	28	29
Rafael Costas, Co-Director, Franklin Municipal Bond Department	28	29
Franklin Templeton Fixed Income Group	Number of Members	Average Years Experience
Portfolio Managers	56	20
Portfolio Managers/Analysts	24	17
Research Analysts	70	12
Traders	15	15
Franklin Municipal Bond Department	Number of Members	Average Years Experience
Portfolio Managers	15	20
Research Analysts	17	18

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.

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® 12/31/14. 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 2, 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.** ©2015 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.

BofA Merrill Lynch, used with permission.

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.

PERFORMANCE RISK STATISTICS

Risk vs. Return: Risk is measured by the annualized standard deviation of monthly total returns. Performance of the fund does not include sales charges (if applicable), but it does include dividends and capital gains reinvested at net asset value.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

The fund offers other share classes subject to different fees and expenses, which will affect their performance.

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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INVESTMENTS

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