

FUND CHARACTERISTICS (AS OF 12/31/13)

NASDAQ Symbol FKITX
Fund Inception Date 9/21/92
Dividends Monthly on or near the last business day
Investment Style Tax-Free Income

Benchmark Barclays 10-Year Municipal Bond Index

Lipper Classification Intermediate Municipal Debt Funds

Morningstar Category™ US OE Muni National Interm

Total Net Assets—All Share 3,518 million

Classes

Number of Holdings 460 Maximum Initial Sales Charge 2.25%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™



As of December 31, 2013 the fund's Class A shares received a 3 star overall Morningstar Rating ™, measuring risk-adjusted returns against 242, 207 and 153 U.S.-domiciled US OE Muni National Interm 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.

Franklin Federal Intermediate-Term Tax-Free Income Fund—Class A

PRODUCT PROFILE FOURTH QUARTER 2013

FUND DESCRIPTION

The fund seeks to provide investors with as high a level of income exempt from federal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital. The fund maintains a dollar-weighted average portfolio maturity of three to 10 years.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended December 31, 2013 (%)

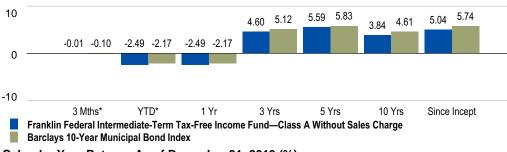
	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (9/21/92)
With Sales Charge	-2.28	-4.69	-4.69	3.82	5.10	3.61	4.93
Without Sales Charge	-0.01	-2.49	-2.49	4.60	5.59	3.84	5.04
Barclays 10-Year Municipal Bond Index	-0.10	-2.17	-2.17	5.12	5.83	4.61	5.74

Total Annual Operating Expenses—0.65%

30-Day Standardized Yield (As of 12/31/13)—2.14% Taxable Equivalent Yield (As of 12/31/13)—3.78%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values 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, 2013 (%)



Calendar Year Returns As of December 31, 2013 (%)



Franklin Federal Intermediate-Term Tax-Free Income Fund—Class A Without Sales Charge Barclays 10-Year Municipal Bond Index

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.

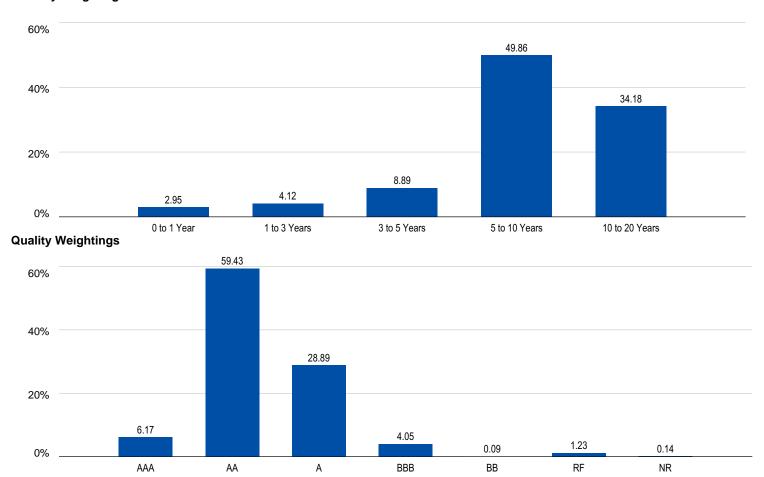
The Taxable-Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect on December 2013.

*Cumulative Total Returns.

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

PORTFOLIO DIVERSIFICATION (AS OF 12/31/13)—Fund

Maturity Weightings



Tax-Exempt Income By Jurisdiction (2013)

Jurisdiction	%	Jurisdiction	%
Alabama	2.60%	Montana	0.00%
Alaska	0.14%	Nebraska	0.00%
Arizona	6.05%	Nevada	1.55%
Arkansas	0.24%	New Hampshire	0.25%
California	12.75%	New Jersey	9.17%
Colorado	2.54%	New Mexico	0.00%
Connecticut	0.81%	New York	10.76%
Delaware	0.00%	North Carolina	1.79%
District of Columbia	0.00%	North Dakota	0.00%
Florida	8.92%	Ohio	5.81%
Georgia	1.18%	Oklahoma	0.00%
Hawaii	0.00%	Oregon	1.20%
Idaho	0.00%	Pennsylvania	5.15%
Illinois	5.43%	Rhode Island	0.00%
Indiana	0.00%	South Carolina	1.40%
Iowa	0.00%	South Dakota	0.00%
Kansas	0.00%	Tennessee	0.54%
Kentucky	0.69%	Texas	6.11%
Louisiana	1.80%	Utah	0.69%
Maine	0.00%	Vermont	0.00%
Maryland	0.47%	Virginia	1.05%
Massachusetts	1.12%	Washington	1.13%
Michigan	4.61%	West Virginia	0.00%
Minnesota	0.73%	Wisconsin	0.27%
Mississippi	0.00%	Wyoming	0.00%
Missouri	0.74%	, -	

Sector Breakdown

Name	%
General Obligation Bonds	20.73%
Utilities	19.35%
Subject to Government Appropriation	17.28%
Transportation	14.84%
Hospital & Health Care	8.22%
Tax Supported Debt	6.97%
Other Revenue Bonds	5.75%
Higher Education	3.05%
Cash & Cash Equivalents	2.43%
Refunded	1.38%
Housing	0.01%

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.

PORTFOLIO CHARACTERISTICS (AS OF 12/31/13)—Fund vs. Barclays 10-Year Municipal Bond Index

	Fund	Benchmark
Average Duration	5.21 Yrs	N/A
Average Weighted Maturity	8.40 Yrs	N/A
AMT Exposure	0.00%	N/A
Annual Turnover Ratio (As of 2/28/13)	1.81%	N/A

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics (As of 12/31/13)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	4.12	4.72	4.60
Alpha	-0.25	0.13	-0.58
Beta	0.95	0.94	0.95
Sharpe Ratio	1.10	1.17	0.50
Information Ratio	-1.15	-0.30	-0.86
Tracking Error	0.44	0.80	0.87
R-Squared	99.11	97.58	96.59

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values 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.

<u>Average Duration (Tax Free)</u>: 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.

<u>Beta:</u> 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 1.20, 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

<u>Standard Deviation:</u> 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.

<u>Tracking Error:</u> 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 sluggish first two quarters of 2013, US economic growth strengthened noticeably in the second half of the year. The employment picture improved steadily during 2013 as the nation's unemployment rate declined to 7.0% in November compared to 7.8% at the beginning of the year. Meanwhile, inflation pressures remained subdued as the Core Personal Consumption Expenditure price index rose only 1.1% year-over-year through November. Overall, US economic activity expanded at an estimated rate of 3.0% for the fourth quarter and 2.5% for the full year. The biggest beneficiary of improving economic activity was the stock market, which posted its largest annual gain in 18 years. Conversely, stronger economic growth and the fear of tapering by the Federal Reserve (Fed) led to broadly higher interest rates, which limited fixed income returns. Yields on 10-year Treasury notes rose to 3.04% at year-end, up from 2.64% on September 30, and from 1.78% at year-end 2012.

The municipal bond market posted a positive return of 0.32% during the fourth quarter of 2013, and a return of -2.55% for the full year, according to the Barclays Municipal Bond Index.3 Municipal bonds outperformed US Treasuries in the fourth quarter as Treasuries posted a -0.75% return for the quarter.

In the fourth quarter, higher-quality municipal bonds outperformed lower-quality municipal bonds. Within the investment-grade space, Aaa rated bonds were the highest performers over the quarter, while Baa rated bonds underperformed the broad municipal market. In the fourth quarter, performance across the yield curve was primarily positive but mixed. Municipal bonds in the three-to five-year range were the best performers in the fourth quarter, while bonds in the 10-year range posted a negative return.

We continued to see volatility due to continued negative cash flows, and this continued into December when the market experienced year-end selling pressure. In addition, given the continued volatility in the market, we were active in looking to improve the income potential of our investments. In addition, we believe elevated tax levels at both state and local levels could provide support for continued demand for tax-exempt products.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

General obligation bonds performed better than revenue bonds and the broad municipal bond index in the fourth quarter of 2013.

During the fourth quarter of 2013, the fund's performance was helped by its exposure to the five-to seven-year segment of the yield curve. In contrast, the fund's exposure to lower-quality bonds hindered performance.

Portfolio Positioning

We continued to maintain our focus on seeking tax-free income throughout 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

While individual issuers like Detroit and Puerto Rico dominated headlines with their troubles, a slowly growing economy as well as state and local tax increases have generally caused state and local revenues to increase. While cost pressures have also built up over time, such as pension obligations and other retirement benefits, states and localities have generally been seeing their fiscal positions improve. In addition, municipal bond defaults continued to remain at low historical levels in the fourth quarter and throughout 2013.

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 12/31/13)

Franklin Federal Intermediate-Term Tax-Free Income Fund Management Team	Years with Firm	Years Experience
John Pomeroy	27	28
James Conn, CFA	17	27
Franklin Templeton Fixed Income Management Team	Years with Firm	Years Experience
Christopher Molumphy, CFA - Chief Investment Officer	25	27
Sheila Amoroso, Co-Director, Franklin Municipal Bond Department	27	28
Rafael Costas, Co-Director, Franklin Municipal Bond Department	27	28
Franklin Templeton Fixed Income Group	Number of Members	Average Years Experience
Portfolio Managers	52	20
Portfolio Managers/Analysts	24	16
Research Analysts	63	12
Traders	13	16
Franklin Municipal Bond Department	Number of Members	Average Years Experience
Portfolio Managers	15	19
Research Analysts	18	16

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. 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. To the extent the fund has investments in particular states or U.S. territories, such as Puerto Rico, adverse economic and regulatory changes in such states or territories may cause the fund's share price to decline. 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™ 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 Federal Intermediate-Term Tax-Free Income Fund received a traditional Morningstar Rating of 3, 3 and 3 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. ©2014 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.

PORTFOLIO DIVERSIFICATION

<u>Maturity/Quality/Tax-Exempt Income by Jurisdiction/Sector Breakdowns</u>: 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.



Franklin Templeton Distributors, Inc. One Franklin Parkway San Mateo, California 94403-1906 (800) DIAL BEN® (800) 342-5236 franklintempleton.com 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.

© 2014 Franklin Templeton Investments. All rights reserved.