

SECURITIES AND EXCHANGE COMMISSION

FORM 497

Definitive materials filed under paragraph (a), (b), (c), (d), (e) or (f) of Securities Act Rule 497

Filing Date: **1995-02-22**
SEC Accession No. **0000357310-95-000001**

([HTML Version](#) on [secdatabase.com](#))

FILER

FRANKLIN FEDERAL TAX FREE INCOME FUND

CIK: **357310** | IRS No.: **942821264** | State of Incorpor.: **CA** | Fiscal Year End: **0430**
Type: **497** | Act: **33** | File No.: **002-75925** | Film No.: **95514016**

Mailing Address

777 MARINERS ISLAND BLVD
SAN MATEO CA 94404

Business Address

777 MARINERS ISLAND BLVD
SAN MATEO CA 94404
4155703000

SUPPLEMENT DATED FEBRUARY 1, 1995
TO THE PROSPECTUS OF
FRANKLIN FEDERAL TAX-FREE INCOME FUND
DATED SEPTEMBER 1, 1994

The following sections of the prospectus are revised to reflect changes to the operational policies of the Fund effective February 1, 1995:

1. EXPENSE TABLE

Revised to reflect that investments of \$1,000,000 or more are not subject to a front-end sales charge. A contingent deferred sales charge of 1%, however, will be imposed on certain redemptions within 12 months of the calendar month following such investments. See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

2. MANAGEMENT OF THE FUND

Revised to add the definition "Franklin Templeton Group" to describe the subsidiaries of Resources.

3. HOW TO BUY SHARES OF THE FUND:

a) Add the following language under "General":

The Fund may impose a \$10 charge for each returned item against any shareholder account which, in connection with the purchase of Fund shares, submits a check or a draft which is returned unpaid to the Fund. Distributors, or one of its affiliates, may make payments, out of its own resources, of up to 1% of the amount purchased to securities dealers who initiate and are responsible for purchases made at net asset value by certain trust companies and trust departments of banks. See definitions under "Description of Special Net Asset Value Purchases" as described under "Purchases at Net Asset Value" and as set forth in the SAI.

b) Substitute the following for the sales charge table and the ensuing two paragraphs:

<TABLE>

<CAPTION>

SIZE OF TRANSACTION AT OFFERING PRICE	TOTAL SALES CHARGE		
	AS A PERCENTAGE OF OFFERING PRICE	AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF OFFERING PRICE*, **
<S>	<C>	<C>	<C>
Less than \$100,000.....	4.25%	4.44%	4.00%
\$100,000 but less than \$250,000.....	3.50%	3.63%	3.25%
\$250,000 but less than \$500,000.....	2.75%	2.83%	2.50%
\$500,000 but less than \$1,000,000.....	2.15%	2.20%	2.00%
\$1,000,000 or more.....	none	none	(see below) **

</TABLE>

*Financial institutions or their affiliated brokers may receive an agency transaction fee in the percentages set forth above.

**The following commissions will be paid by Distributors, from its own resources, to securities dealers who initiate and are responsible for purchases of \$1 million or more: 0.75% on sales of \$1 million but less than \$2 million, plus 0.60% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more. Dealer concession breakpoints are reset every 12 months for purposes of additional purchases.

***At the discretion of Distributors, all sales charges may at times be allowed to the securities dealer. If 90% or more of the sales commission is allowed, such securities dealer may be deemed to be an underwriter as that term is defined in the Securities Act of 1933, as amended.

No front-end sales charge applies on investments of \$1 million or more, but a contingent deferred sales charge of 1% is imposed on certain redemptions of investments of \$1 million or more within 12 months of the calendar month following such investments ("contingency period"). See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

The size of a transaction which determines the applicable sales charge on the purchase of Fund shares is determined by adding the amount of the

shareholder's current purchase plus the cost or current value (whichever is higher) of a shareholder's existing investment in one or more of the funds in the Franklin Group of Funds(R) and the Templeton Group of Funds. Included for these aggregation purposes are (a) the mutual funds in the Franklin Group of Funds except Franklin Valuemark Funds and Franklin Government Securities Trust (the "Franklin Funds"), (b) other investment products underwritten by Distributors or its affiliates (although certain investments may not have the same schedule of sales charges and/or may not be subject to reduction) and (c) the U.S. mutual funds in the Templeton Group of Funds except Templeton American Trust, Inc., Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, and Templeton Variable Products Series Fund (the "Templeton Funds"). (Franklin Funds and Templeton Funds are collectively referred to as the "Franklin Templeton Funds.") Sales charge reductions based upon aggregate holdings of (a), (b) and (c) above ("Franklin Templeton Investments") may be effective only after notification to Distributors that the investment qualifies for a discount. References throughout the Prospectus, for purposes of aggregating assets or describing the exchange privilege, refer to the above descriptions.

Distributors, or one of its affiliates, may make payments, out of its own resources, of up to 1% of the amount purchased to securities dealers who initiate and are responsible for purchases made at net asset value by certain trust companies and trust departments of banks. See definition under "Description of Special Net Asset Value Purchases" and as set forth in the SAI.

- c) Substitute the following for the current "Purchases at Net Asset Value" subsection:

PURCHASES AT NET ASSET VALUE

Shares of the Fund may be purchased without the imposition of a front-end sales charge ("net asset value") or a contingent deferred sales charge by (1) officers, directors, trustees and full-time employees of the Fund, any of the Franklin Templeton Funds, or of the Franklin Templeton Group, and by their spouses and family members; (2) companies exchanging shares with or selling assets pursuant to a merger, acquisition or exchange offer; (3) registered securities dealers and their affiliates, for their investment account only, and (4) registered personnel and employees of securities dealers, and by their spouses and family members, in accordance with the internal policies and procedures of the employing securities dealer.

Shares of the Fund may be purchased at net asset value by persons who have redeemed, within the previous 120 days, their shares of the Fund or another of the Franklin Templeton Funds which were purchased with a front-end sales charge or assessed a contingent deferred sales charge on redemption. An investor may reinvest an amount not exceeding the redemption proceeds. While credit will be given for any contingent deferred sales charge paid on the shares redeemed, a new contingency period will begin. Shares of the Fund redeemed in connection with an exchange into another fund (see "Exchange Privilege") are not considered "redeemed" for this privilege. In order to exercise this privilege, a written order for the purchase of shares of the Fund must be received by the Fund or the Fund's Shareholder Services Agent within 120 days after the redemption. The 120 days, however, do not begin to run on redemption proceeds placed immediately after redemption in a Franklin Bank Certificate of Deposit ("CD") until the CD (including any rollover) matures. Reinvestment at net asset value may also be handled by a securities dealer or other financial institution, who may charge the shareholder a fee for this service. The redemption is a taxable transaction but reinvestment without a sales charge may affect the amount of gain or loss recognized and the tax basis of the shares reinvested. If there has been a loss on the redemption, the loss may be disallowed if a reinvestment in the same fund is made within a 30-day period. Information regarding the possible tax consequences of such a reinvestment is included in the tax section of this Prospectus and the SAI.

Dividends and capital gains received in cash by the shareholder may also be used to purchase shares of the Fund or another of the Franklin Templeton Funds at net asset value and without the imposition of a contingent deferred sales charge within 120 days of the payment date of such distribution. To exercise this privilege, a written request to reinvest the distribution must accompany the purchase order. Additional information may be obtained from Shareholder Services at 1-800/632-2301. See "Distributions in Cash" under "Distributions to Shareholders."

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by investors who have, within the past 60 days, redeemed an investment in an unaffiliated mutual fund which charged the investor a contingent deferred sales charge upon redemption and which has investment objectives similar to those of the Fund. Shares of the Fund may be purchased at net asset value and without the

imposition of a contingent deferred sales charge by registered investment advisors and/or their affiliated broker-dealers, who have entered into a supplemental agreement with Distributors, on behalf of their clients who are participating in a comprehensive fee program (also known as a wrap fee program).

Shares of the Fund may also be purchased at net asset value and without the imposition of a contingent deferred sales charge by any state, county, or city, or any instrumentality, department, authority or agency thereof which has determined that the Fund is a legally permissible investment and which is prohibited by applicable investment laws from paying a sales charge or commission in connection with the purchase of shares of any registered management investment company ("an eligible governmental authority"). SUCH INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE SHARES OF THE FUND CONSTITUTE LEGAL INVESTMENTS FOR THEM. Municipal investors considering investment of proceeds of bond offerings into the Fund should consult with expert counsel to determine the effect, if any, of various payments made by the Fund or its investment manager on arbitrage rebate calculations. If an investment by an eligible governmental authority at net asset value is made through a securities dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such securities dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

DESCRIPTION OF SPECIAL NET ASSET VALUE PURCHASES.

Shares of the Fund may be purchased at net asset value and without the imposition of a contingent deferred sales charge by trust companies and bank trust departments for funds over which they exercise exclusive discretionary investment authority and which are held in a fiduciary, agency, advisory, custodial or similar capacity. Such purchases are subject to minimum requirements with respect to amount of purchase, which may be established by Distributors. Currently, those criteria require that the amount invested or to be invested during the subsequent 13-month period in this Fund or any of the Franklin Templeton Investments must total at least \$1,000,000. Orders for such accounts will be accepted by mail accompanied by a check or by telephone or other means of electronic data transfer directly from the bank or trust company, with payment by federal funds received by the close of business on the next business day following such order.

Refer to the SAI for further information.

4. EXCHANGE PRIVILEGE

Add the following paragraph under the subsection "Additional Information Regarding Exchanges":

A contingent deferred sales charge will not be imposed on exchanges. If, however, the exchanged shares were subject to a contingent deferred sales charge in the original fund purchased, and shares are subsequently redeemed within the contingency period, a contingent deferred sales charge will be imposed. The contingency period will be tolled (or stopped) for the period such shares are exchanged

3

into and held in a Franklin or Templeton money market fund. See also "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

5. HOW TO SELL SHARES OF THE FUND

Add the following subsection:

CONTINGENT DEFERRED SALES CHARGE

In order to recover commissions paid to securities dealers on investments of \$1 million or more, a contingent deferred sales charge of 1% applies to redemptions of those investments within the contingency period of 12 months of the calendar month following such purchase. The charge is 1% of the lesser of the value of the shares redeemed (exclusive of reinvested dividends and capital gain distributions) or the total cost of such shares, and is retained by Distributors. In determining if a charge applies, shares not subject to a contingent deferred sales charge are deemed to be redeemed first, in the following order: (i) Shares representing amounts attributable to capital appreciation of those shares held less than 12 months; (ii) shares purchased with reinvested dividends and capital gain distributions; and (iii) other shares held longer than 12 months; and followed by any shares held less than 12 months, on a "first in, first out" basis.

The contingent deferred sales charge is waived for: exchanges; redemptions through a Systematic Withdrawal Plan set up prior to February 1, 1995 and for Systematic Withdrawal Plans set up thereafter, redemptions of up to 1%

monthly of an account's net asset value (3% quarterly, 6% semiannually or 12% annually); and redemptions initiated by the Fund due to a shareholder's account falling below the minimum specified account size.

Requests for redemptions for a specified dollar amount will result in additional shares being redeemed to cover any applicable contingent deferred sales charge while requests for redemption of a specific number of shares will result in the applicable contingent deferred sales charge being deducted from the total dollar amount redeemed.

FRANKLIN
FEDERAL TAX-FREE
INCOME FUND

PROSPECTUS September 1, 1994

[LOGO]

777 Mariners Island Blvd., P.O. Box 7777
San Mateo, CA 94403-7777 1-800/DIAL BEN

Franklin Federal Tax-Free Income Fund (the "Fund") is a diversified, open-end management investment company which invests in municipal securities with the objective of providing as high a level of interest income exempt from federal income taxes as is consistent with prudent investing, while seeking preservation of shareholders' capital. Investments in municipal securities will be within the four highest municipal ratings of either Moody's Investors Service ("Moody's"), Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch") or in unrated securities which, in the opinion of the Fund's investment manager, are of comparable quality to such four highest ratings. (See "Investment Objective and Policies of the Fund.") Normally, except for temporary defensive purposes, at least 80% of the Fund's assets will be invested in tax-exempt municipal securities. There, of course, can be no guarantee that the Fund's objective will be achieved.

This Prospectus is intended to set forth in a clear and concise manner information about the Fund that a prospective investor should know before investing. After reading the Prospectus, it should be retained for future reference; it contains information about the purchase and sale of shares and other items which a prospective investor will find useful to have. Shares of the Fund are not deposits or obligations of, or guaranteed or endorsed by, any bank; further, such shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. Shares of the Fund involve investment risks including the possible loss of principal. A Statement of Additional Information concerning the Fund, dated September 1, 1994, as may be amended from time to time, provides a further discussion of certain areas in this Prospectus and other matters which may be of interest to some investors. It has been filed with the Securities and Exchange Commission ("SEC") and is incorporated herein by reference. A copy is available without charge from the Fund or the Fund's principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors"), at the address or telephone number listed above.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus is not an offering of the securities herein described in any state in which the offering is not authorized. No sales representative, dealer, or other person is authorized to give any information or make any representations other than those contained in this Prospectus. Further information may be obtained from the underwriter.

CONTENTS	PAGE
Expense Table.....	2
Financial Highlights.....	4
About the Fund.....	4
Investment Objective and Policies of the Fund.....	4
Management of the Fund.....	9
Distributions to Shareholders.....	10
Taxation of the Fund and Its Shareholders.....	12

How to Buy Shares of the Fund.....	14
Other Programs and Privileges	
Available to Fund Shareholders.....	19
Exchange Privilege.....	21
How to Sell Shares of the Fund.....	23
Telephone Transactions.....	26
Valuation of Fund Shares.....	27
How to Get Information	
Regarding an Investment in the Fund.....	27
Performance.....	28
General Information.....	29
Account Registrations.....	30
Important Notice Regarding	
Taxpayer IRS Certifications.....	31
Portfolio Operations.....	31

EXPENSE TABLE

The purpose of this table is to assist an investor in understanding the various costs and expenses that a shareholder will bear directly or indirectly in connection with an investment in the Fund. These figures are based on aggregate operating expenses of the Fund for the fiscal year ended April 30, 1994, restated to reflect Rule 12b-1 fees and the higher sales charge on purchases as though both had been in effect at the beginning of the period.

<TABLE>
<CAPTION>
SHAREHOLDER TRANSACTION EXPENSES

<S>	<C>
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).....	4.25%*
Maximum Sales Charge Imposed on Reinvested Dividends.....	NONE**
Deferred Sales Charge.....	NONE
Redemption Fees.....	NONE
Exchange Fee (per transaction).....	\$5.00+

</TABLE>

*New sales charge effective July 1, 1994.
**The sales charge on reinvested dividends was eliminated effective May 1, 1994.
+\$5.00 fee imposed only on Timing Accounts as described under "Exchange Privilege." All other exchanges are processed without a fee.

<TABLE>
<CAPTION>
ANNUAL FUND OPERATING EXPENSES
(as a percentage of average net assets)

<S>	<C>	<C>
Management Fees.....		0.46%
Maximum 12b-1 Fees.....		0.10%++
Other Expenses		
Shareholder Servicing Costs.....	0.01%	
Reports to Shareholders.....	0.02%	
Other Expenses.....	0.03%	
Total Other Expenses.....		0.06%
Total Fund Operating Expenses.....		0.62%+++

</TABLE>

++At a special meeting held on April 22, 1994, shareholders of the Fund approved a plan of distribution (the "Plan") pursuant to Rule 12b-1 of the Investment Company Act of 1940 (the "1940 Act") which will provide for payments by the Fund for distribution of its shares, at a maximum annual rate of 0.10% of average net assets, effective May 1, 1994. See "Management of the Fund - Plan of Distribution". Consistent with National Association of Securities Dealers, Inc.'s rules, it is possible that the combination of front-end sales charges and Rule 12b-1 fees could cause long-term shareholders to pay more than the economic equivalent of the maximum front-end sales charges permitted under those same rules.

+++Total operating expenses for the fiscal year ended April 30, 1994 have been restated to reflect the maximum reimbursement allowed pursuant to the plan permitted by Rule 12b-1, as though the plan had been in effect for the entire fiscal year. The Fund's actual total operating expenses equalled 0.52% for the fiscal year ended April 30, 1994.

Investors should be aware that the above table is not intended to reflect in precise detail the fees and expenses associated with an individual's own investment in the Fund. Rather, the table has been provided only to assist investors in gaining a more complete understanding of fees, charges and expenses. For a more detailed discussion of these matters, investors should refer to the appropriate sections of this Prospectus.

EXAMPLE

As required by regulations of the SEC, the following example illustrates the expenses, including the initial sales charge, that apply to a \$1,000 investment in the Fund over various time periods assuming (1) a 5% annual rate of return and (2) redemption at the end of each time period. As noted in the table above, the Fund charges no redemption fees:

1 YEAR	3 YEARS	5 YEARS	10 YEARS
\$49	\$62	\$76	\$117

THIS EXAMPLE IS BASED ON THE AGGREGATE ANNUAL OPERATING EXPENSES, INCLUDING FEES SET BY CONTRACT, SHOWN ABOVE AND SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES, WHICH MAY BE MORE OR LESS THAN THOSE SHOWN. The operating expenses are paid by the Fund and are borne by the shareholders as a result of their investment in the Fund. In addition, federal regulations require the example to assume an annual return of 5%, but the Fund's actual return may be more or less than 5%. No deduction was made for sales charges on reinvested dividends in effect through April 30, 1994; the expenses would be increased if they were reflected.

3

FINANCIAL HIGHLIGHTS

Set forth below is a table containing the financial highlights for a share of the Fund for the ten fiscal years in the period ended April 30, 1994. The information for each of the five fiscal years in the period ended April 30, 1994 has been audited by Coopers & Lybrand, independent auditors, whose audit report appears in the financial statements in the Fund's Statement of Additional Information. The remaining figures, which are also audited, are not covered by the accountant's current report. A copy of the Statement of Additional Information as well as the Annual Report, which contains further information regarding performance, may be obtained without charge as noted on the front cover of this Prospectus.

<TABLE>
<CAPTION>

Year Ended	Net Asset Value at Beginning of Year	Net Investment Income	Net Realized & Unrealized Gains (Losses) on Securities	Total From Investment Operations	Distributions From Net Investment Income	Distributions From Related Capital Gains
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1994	\$12.24	\$0.77	\$(0.415)	\$0.355	\$(0.785)	\$ --
1993	11.68	0.80	0.576	1.376	(0.816)	--
1992	11.40	0.82	0.302	1.122	(0.842)	--
1991	11.08	0.83	0.342	1.172	(0.852)	--
1990	11.33	0.84	(0.238)	0.602	(0.852)	--
1989	10.97	0.85	0.422	1.272	(0.912)	--
1988	11.16	0.86	(0.118)	0.742	(0.924)	(0.008)
1987	11.64	0.92	(0.398)	0.522	(0.980)	(0.022)
1986	10.44	1.08	1.126	2.206	(1.006)	--
1985	10.02	1.09	0.330	1.420	(1.000)	--
1984	10.00	0.58	(0.130)	0.450	(0.430)	--

</TABLE>
<TABLE>
<CAPTION>

Year Ended	Net Asset Value at End of Year	Total Return*	Net Assets at End of Year (in 000's)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1994	\$11.81	2.58%	\$6,804,262	0.52%	6.27%	24.59%
1993	12.24	11.89	6,414,739	0.51	6.68	13.30
1992	11.68	9.90	5,184,214	0.51	7.07	14.94
1991	11.40	10.67	4,353,043	0.50	7.34	28.79
1990	11.08	5.10	3,865,264	0.50	7.39	17.83
1989	11.33	11.71	3,648,652	0.51	7.59	16.43
1988	10.97	6.72	2,839,701	0.52	7.83	19.31
1987	11.16	4.01	2,407,298	0.54	7.14	19.70
1986	11.64	21.76	644,134	0.64	7.72	75.51
1985	10.44	14.81	69,445	0.85	8.60	98.64
1984	10.02	2.35	3,960	0.70	5.70	24.00

</TABLE>

*Total return measures the change in value of an investment over the periods indicated. It does not include the maximum initial sales charge and assumes reinvestment of dividends at the offering price and capital gains, if any, at net asset value.

ABOUT THE FUND

The Fund, which was incorporated in the State of California in 1982 under the name of Franklin Cash Management Fund, is a diversified, open-end management investment company, or mutual fund, and has registered as such under the Investment Company Act of 1940, as amended (the "1940 Act"). Its present investment objective and policies were adopted in June 1983, and its present name was adopted in September 1983. The Fund has only one class of capital stock with no par value. Shares of the Fund may be purchased (minimum investment of \$100 initially and \$25 thereafter) at the current public offering price which is equal to the Fund's net asset value (see "Valuation of Fund Shares") plus a sales charge based upon a variable percentage (ranging from 4.25% to less than 1.0% of the offering price) depending upon the amount invested. (See "How to Buy Shares of the Fund.")

INVESTMENT OBJECTIVE AND POLICIES OF THE FUND

The investment objective of the Fund is to provide as high a level of interest income exempt from federal income taxes as is consistent with prudent investing, while seeking preservation of shareholders' capital through investing the Fund's assets primarily in securities exempt from such taxes under the Internal Revenue Code of 1986, as amended (the "Code"). The Fund will seek to achieve its objective by investing in a diversified portfolio of municipal securities that are obligations issued by or on behalf of states, territories and possessions of

4

the United States and the District of Columbia, and their political subdivisions, agencies, authorities and instrumentalities, the interest on which is exempt from federal income tax. The investment objective of the Fund is a fundamental policy which may not be changed without shareholder approval. The Fund has no restrictions on the maturity of municipal securities in which it may invest. Accordingly, the Fund seeks to invest in municipal securities of such maturities which, in the judgment of the Fund and its investment manager, will provide a high level of current income consistent with prudent investment, with consideration given to market conditions. Under current market conditions, the average maturity in the Fund's portfolio is 20-25 years.

TYPES OF SECURITIES THE FUND MAY PURCHASE

The Fund may invest, without percentage limitations, in securities having, at the time of purchase, one of the four highest municipal ratings of Moody's (Aaa, Aa, A, Baa), S&P (AAA, AA, A, BBB) or Fitch (AAA, AA, A, BBB), or in securities which are not rated, provided that, in the opinion of the Fund's investment manager, such securities are comparable in quality to those within the four highest ratings. The rating agencies consider that bonds rated in the fourth highest category may have some speculative characteristics and that changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than in the cases with higher grade bonds. In the event the rating on an issue held in the Fund's portfolio is changed by the rating service, such change will be considered by the Fund in its evaluation of the overall investment merits of that security but such change will not necessarily result in an automatic sale of the security. A description of the ratings is contained in the Appendix to the Statement of Additional Information.

Prior to acquiring unrated securities, the investment manager considers the terms of the offering and various other factors, initially to determine whether the securities are consistent with the Fund's investment objective and policies, and thereafter to determine the issuer's comparative credit rating. In making such determinations, the investment manager may typically (i) interview representatives of the issuer at its offices, conducting a tour and inspection of the physical facilities of the issuer in an effort to evaluate the issuer and its operations, (ii) perform analysis of the issuer's financial and credit position, including comparisons of all appropriate ratios, and/or (iii) compare other similar securities offerings to the issuer's proposed offering.

As a fundamental investment policy, with respect to 75% of the Fund's gross assets, the Fund may not purchase securities of any issuer which would result in more than 5% of the value of its gross assets being invested in securities of any one issuer, but this limitation does not apply to investments issued or guaranteed by the U.S. government or its instrumentalities. With respect to the remaining 25% of the value of the Fund's gross assets, the Fund may invest in the securities of as few as one issuer. In determining the issuer of a tax-exempt security, each state and each political subdivision, agency and instrumentality of each state and each multi-state agency of which such state is a member is a separate issuer. Where securities are backed only by assets and revenues of a particular instrumentality, facility or subdivision, such entity is considered the issuer. However, in any case, if the creating government or other entity guarantees a security, such a guarantee would be considered a separate security and would be treated as an issue of such

assets may be invested in industrial revenue bonds or in securities of issuers located in the same state. Percentage limitations referred to herein and elsewhere in this Prospectus are determined as of the time an investment or purchase is made. As a fundamental policy, at least 80% of the Fund's total assets will be invested in tax-exempt municipal securities. Under normal circumstances, the securities included in this 80% policy will also not be subject to the federal alternative minimum tax. There may be certain occasions, however, during which a portion of the Fund's assets may be invested in taxable instruments.

The Fund may also invest in municipal lease obligations primarily through Certificates of Participation ("COPs"). COPs, which are widely used by state and local governments to finance state and local government needs, function much like installment purchase agreements. For example, a COP may be created when long-term lease revenue bonds are issued by a governmental corporation to pay for the acquisition of property or facilities which are then leased to a municipality. The payments made by the municipality under the lease are used to repay interest and principal on the bonds issued to purchase the property. Once these lease payments are completed, the municipality gains ownership of the property for a nominal sum. This lease format is generally not subject to constitutional limitations on the issuance of state debt, and COPs enable a governmental issuer to increase government liabilities beyond constitutional debt limits.

A feature which distinguishes COPs from municipal debt is that the lease which is the subject of the transaction contains a "nonappropriation" or "abatement" clause. A nonappropriation clause provides that while the municipality will use its best efforts to make lease payments, the municipality may terminate the lease without penalty if the municipality's appropriating body does not allocate the necessary funds. Local administrations, being faced with increasingly tight budgets, therefore, have more discretion to curtail payments under COPs than they do to curtail payments on traditionally funded debt obligations. If the government lessee does not appropriate sufficient monies to make lease payments, the lessor or its agent is typically entitled to repossess the property. In most cases, however, the private sector value of the property will be less than the amount the government lessee was paying.

While the risk of nonappropriation is inherent to COP financing, the Fund believes that this risk is mitigated by its policy of investing only in COPs rated within the four highest rating categories of Moody's, S&P, or Fitch, or in unrated COPs believed by the Fund's investment manager to be of comparable quality. Criteria considered by the rating agencies and the Fund's investment manager in assessing such risk include the issuing municipality's credit rating, the essentiality of the leased property to the municipality and the term of the lease compared to the useful life of the leased property. The Board of Directors reviews the COPs held in the Fund's portfolio to assure that they constitute liquid investments based on various factors reviewed by the investment manager and monitored by the Board. Such factors include (a) the credit quality of such securities and the extent to which they are rated or, if unrated, comply with existing criteria and procedures followed to ensure that they are of quality comparable to the ratings required for the Fund's investments, including an assessment of the likelihood that the leases will not be cancelled; (b) the size of the municipal securities market, both in general and with respect to COPs; and (c) the extent to which the type of COPs held by the Fund trade on the same basis

and with the same degree of dealer participation as other municipal bonds of comparable credit rating or quality. While there is no limit as to the amount of assets which the Fund may invest in COPs, as of April 30, 1994, the Fund held 1.9% of its assets in such instruments.

Illiquid Investments. It is the policy of the Fund that illiquid securities (securities that cannot be disposed of within seven days in the normal course of business at approximately the amount at which the Fund has valued the securities) may not constitute, at the time of purchase, more than 10% of the value of the total net assets of the Fund.

SOME CHARACTERISTICS OF MUNICIPAL SECURITIES

Municipal securities include debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of public facilities such as bridges, highways, housing, hospitals, mass transportation, schools, streets and water and sewer works. Other public purposes for which municipal securities or bonds may be issued include the refunding of outstanding obligations, obtaining funds for general operating expenses and the obtaining of funds to loan to other public institutions and facilities. In addition, certain types of industrial development bonds are issued by or on behalf of public authorities to obtain funds to provide privately-operated

housing facilities, sports facilities, convention or trade show facilities, transportation bonds, mass transit, port or parking facilities, air or water pollution control facilities and certain local facilities for water supply, gas, electricity, or sewage or solid waste disposal.

The two principal classifications of municipal securities are "general obligation" and "revenue" bonds. General obligation bonds are secured by the pledge of the municipality's faith, credit and taxing power for the payment of principal and interest, and are considered the safest type of municipal bond. Revenue bonds are payable only from the revenues derived from a particular project or facility and are generally dependent solely on a specific revenue source. Industrial development bonds are a specific type of revenue bond backed by the credit and security of a private user. Assessment bonds, wherein a specially created district or project area levies a tax (generally on its taxable property) to pay for an improvement or project may be considered a variant of either category. There are, of course, other variations in the security of municipal bonds, both within a particular classification and between classifications, depending on numerous factors. The Fund is not limited with respect to which category of municipal security it may acquire.

The Fund may purchase floating rate and variable rate obligations. These obligations bear interest at rates that are not fixed, but that vary with changes in specified market rates or indices on predesignated dates. Certain of these obligations may carry a demand feature that permits the Fund to tender them back to the issuer at par value plus accrued interest, prior to maturity, which amount may be more or less than the amount the Fund paid for them.

The interest on bonds issued to finance public purpose state and local government operations is generally tax-exempt for regular federal income tax purposes. Interest on certain private activity bonds (including those for housing and student loans) issued after August 7, 1986, while still tax-exempt, constitutes a preference item for taxpayers in determining the federal alternative minimum tax under the Code and under the income tax provisions of some states. This interest could subject a shareholder to, or increase liability under, the federal and state alternative minimum taxes, depending on the shareholder's tax situation. In addition, all distributions derived from interest exempt from

7

regular federal income tax may subject a corporate shareholder to, or increase liability under, the federal alternative minimum tax, because such distributions are included in the corporation's "adjusted current earnings." In states with a corporate franchise tax, distributions of the Fund may also be fully taxable to a corporate shareholder under the state franchise tax system.

Consistent with the Fund's investment objectives, the Fund may acquire such private activity bonds if, in the investment manager's opinion, such bonds represent the most attractive investment opportunity then available to the Fund. As of April 30, 1994, the Fund derived 12.50% of its income from bonds, the interest on which constitutes a preference item subject to the federal alternative minimum tax for certain investors.

A portion of original issue discount relating to any stripped municipal bonds (including bonds issued to finance public purpose governmental functions) and their interest coupons may be taxable under certain circumstances.

INVESTMENT RISK CONSIDERATIONS

While an investment in any of the Funds is not without risk, certain policies are followed in managing each Fund which may help to reduce such risk. There are two categories of risks to which a Fund is subject: credit risk and market risk. Credit risk is a function of the ability of an issuer of a municipal security to maintain timely interest payments and to pay the principal of a security upon maturity. It is generally reflected in a security's underlying credit rating and its stated interest rate (normally the coupon rate). A change in the credit risk associated with a municipal security may cause a corresponding change in the security's price. Market risk is the risk of price fluctuation of a municipal security caused by changes in general economic and interest rate conditions generally affecting the market as a whole. A municipal security's maturity length also affects its price. As with other debt instruments, the price of the debt securities in which a Fund invests are likely to decrease in times of rising interest rates. Conversely, when rates fall, the value of a Fund's debt investments may rise. Price changes of debt securities held by each Fund have a direct impact on the net asset value per share of the Fund.

CALLABLE BONDS

Callable municipal bonds are municipal bonds which contain a provision in the indenture permitting the issuer to redeem the bonds prior to their maturity dates at a specified price which typically reflects a premium over the bonds' original issue price. These bonds generally have call-protection (that is, a period of time during which the bonds may not be called) which usually lasts for 5 to 10 years, after which time such bonds may be called away. An issuer

may generally be expected to call its bonds, or a portion of them, during periods of relatively declining interest rates, when borrowings may be replaced at lower rates than those obtained in prior years. If the proceeds of a bond called under such circumstances are reinvested, the result may be a lower overall yield due to lower current interest rates. If the purchase price of such bonds included a premium related to the appreciated value of the bonds, some or all of that premium may not be recovered by bondholders, such as the Fund, depending on the price at which such bonds were redeemed. Normally, the Fund will not hold called bonds until they are redeemed if that will result in a lost premium. In most cases, the investment manager will attempt to time the sale to recover what the investment manager considers to be the optimum amount of premium obtainable considering market conditions and the time remaining before redemption.

8

The Fund is subject to a number of additional investment restrictions, some of which may be changed only with the approval of shareholders, which limit its activities to some extent. A list of these restrictions and additional information concerning the characteristics of municipal securities is included in the Statement of Additional Information.

MANAGEMENT OF THE FUND

The Board of Directors has the primary responsibility for the overall management of the Fund and for electing the officers of the Fund who are responsible for administering its day-to-day operations.

Franklin Advisers, Inc. ("Advisers" or "Manager") serves as the Fund's investment manager. Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly owned holding company, the principal shareholders of which are Charles B. Johnson, Rupert H. Johnson, Jr. and R. Martin Wiskemann, who own approximately 20%, 16% and 10%, respectively, of Resources' outstanding shares. Through its subsidiaries, Resources is engaged in various aspects of the financial services industry. Advisers acts as investment manager to 34 U.S. registered investment companies (112 separate series) in the Franklin Group of Funds(R) with aggregate assets of over \$74 billion, approximately \$40 billion of which are in the municipal securities market.

Pursuant to the management agreement, the Manager supervises and implements the Fund's investment activities and provides certain administrative services and facilities which are necessary to conduct the Fund's business.

During the fiscal year ended pril 30, 1994, management fees totalling 0.46% of the average monthly net assets of the Fund were paid to Advisers.

It is not anticipated that the Fund ill incur a significant amount of brokerage expenses because municipal securities are generally traded on a "net" basis, that is, in principal transactions without the addition or deduction of brokerage commissions or transfer taxes. To the extent that the Fund does participate in transactions involving brokerage commissions, it is the Manager's responsibility to select brokers through whom such transactions will be effected. The Manager tries to obtain the best execution on all such transactions. If it is felt that more than one broker is able to provide the best execution, the Manager will consider the furnishing of quotations and of other market services, research, statistical and other data for the Manager and its affiliates, as well as the sale of shares of the Fund, as factors in selecting a broker. Further information is included under "The Fund's Policies Regarding Brokers Used on Portfolio Transactions" in the Statement of Additional Information.

Shareholder accounting and many of the clerical functions for the Fund are performed by Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent") in its capacity as transfer agent and dividend-paying agent. Investor Services is a wholly-owned subsidiary of Resources.

During the fiscal year ended April 30, 1994, the expenses borne by the Fund, including fees paid to Advisers and to Investor Services, totalled 0.52% of the average monthly net assets of the Fund.

PLAN OF DISTRIBUTION

Effective May 1, 1994 (the "Effective Date") the Fund adopted a plan pursuant to Rule 12b-1 under the 1940 Act (the "Plan"), as approved by shareholders at a special meeting held on April 28, 1994. Under the Plan, the Fund may reimburse Distributors or others for all expenses incurred by Distributors or others in the promotion and distribution of the Fund's shares. bution of the Fund's shares. Such expenses may include, but are not limited to, Such expenses may included, but are not limited to, the printing of

9

prospectuses and reports used for sales purposes, expenses of preparing and

distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of Distributors' overhead expenses attributable to the distribution of Fund shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund, Distributors or its affiliates. The maximum amount which the Fund may pay to Distributors or others for such distribution expenses is 0.10% per annum of the average daily net assets of the Fund, payable on a quarterly basis. All expenses of distribution and marketing in excess of 0.10% per annum will be borne by Distributors, or others who have incurred them, without reimbursement from the Fund. The Plan also covers any payments to or by the Fund, Distributors, or other parties on behalf of the Fund or Distributors, to the extent such payments are deemed to be for the financing of any activity primarily intended to result in the sale of shares issued by the Fund within the context of Rule 12b-1. The payments under the Plan are included in the maximum operating expenses which may be borne by the Fund.

In implementing the Plan, the Board has determined that the annual fees payable thereunder will be equal to the sum of: (i) the amount obtained by multiplying 0.10% by the average daily net assets represented by shares of the Fund that were acquired by investors on or after the Effective Date of the Plan ("New Assets"), and (ii) the amount obtained by multiplying 0.05% by the average daily net assets represented by shares of the Fund that were acquired before the Effective Date of the Plan ("Old Assets"). Such fees will be paid to the current securities dealer of record on the shareholder's account. In addition, until such time as the maximum payment of 0.10% is reached on a yearly basis, up to an additional 0.02% will be paid to Distributors under the Plan. The payments to be made to Distributors will be used by Distributors to defray other marketing expenses, such as advertising, that have been incurred in accordance with the Plan.

The fee is a Fund expense so that all shareholders regardless of when they purchased their shares will bear 12b-1 expenses at the same rate. That rate initially will be at least 0.07% (0.05% plus 0.02%) of such average daily net assets and, as Fund shares are sold on or after the Effective Date, will increase over time. Thus, as the proportion of Fund shares purchased on or after the Effective Date increases in relation to outstanding Fund shares, the expenses attributable to payments under the proposed Plan will also increase (but will not exceed 0.10% of average daily net assets). While this is the currently anticipated calculation for fees payable under the Plan, the Plan permits the Fund's directors to allow the Fund to pay a full 0.10% on all assets at any time. The approval of the Fund's Board of Directors would be required to change the calculation of the payments to be made under the Plan.

DISTRIBUTIONS TO SHAREHOLDERS

There are two types of distributions which the Fund may make to its shareholders:

1. Income dividends. The Fund receives income in the form of interest and other income derived from its investments. This income, less the expenses incurred in the Fund's operations, is its net investment income from which income dividends may be distributed. Thus, the amount of dividends paid per share may vary with each distribution.

2. Capital gain distributions. The Fund may derive capital gains or losses in connection with sales or other dispositions of its portfolio securities. Distri-

10

butions by the Fund derived from net short-term and net long-term capital gains (after taking into account any net capital loss carryovers) may generally be made once a year in December to reflect any net short-term and net long-term capital gains realized by the Fund as of October 31 of the current fiscal year and any undistributed net capital gains from the prior fiscal year. These distributions, when made, will generally be fully taxable to the Fund's shareholders. The Fund may make more than one distribution derived from net short-term and net long-term capital gains in any year or adjust the timing of these distributions for operational or other reasons.

DISTRIBUTION DATE

Although subject to change by the Board of Directors, without prior notice to or approval by shareholders, the Fund's current policy is to declare income dividends monthly to shareholders of record on the last business day of the month, payable on or about the 15th day of the following month. The amount of income dividend payments by the Fund is dependent upon the amount of net income received by the Fund from its portfolio holdings, is not guaranteed and is subject to the discretion of the Fund's Board of Directors. Fund shares are quoted ex-dividend on the first business day following the record date. THE FUND DOES NOT PAY "INTEREST" OR GUARANTEE ANY FIXED RATE OF RETURN ON AN INVESTMENT IN ITS SHARES.

In order to be entitled to a dividend, the investor must have acquired

Fund shares prior to the close of business on the record date. An investor considering purchasing Fund shares shortly before the record date of a distribution should be aware that, because the value of the Fund's shares is based directly on the amount of its net assets rather than on the principle of supply and demand, any distribution of income or capital gain will result in a decrease in the value of its shares equal to the amount of the distribution. While a dividend or capital gain distribution received shortly after purchasing shares represents, in effect, a return of a portion of the shareholder's investment, it may be taxable as dividend income or capital gain.

DIVIDEND REINVESTMENT

Unless requested otherwise in writing or on the Shareholder Application, income dividends and capital gain distributions, if any, will be automatically reinvested in the shareholder's account in the form of additional shares, valued at the closing net asset value (that is, without sales charge) on the dividend reinvestment date. Shareholders have the right to change their election with respect to the receipt of distributions by notifying the Fund, but any such change will be effective only as to distributions for which the record date is seven or more business days after the Fund has been notified. See the Statement of Additional Information for more information.

Many of the Fund's shareholders receive their distributions in the form of additional shares. This is a convenient way to accumulate additional shares and maintain or increase the shareholder's earnings base. Of course, any shares so acquired remain at market risk.

DISTRIBUTIONS IN CASH

A shareholder may elect to receive income dividends, or both income dividends and capital gain distributions, in cash. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected distributions to another fund in the Franklin Group of Funds(R) or the Templeton Group, to another person, or directly to a checking account. If the bank at which the account is maintained is a

11

member of the Automated Clearing House, the payments may be made automatically by electronic funds transfer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Dividends which may be paid in the interim period will be sent to the address of record. Dividend and capital gain distributions are eligible for investment in another fund in the Franklin Group of Funds(R) or the Templeton Group at net asset value. Additional information regarding automated funds transfer may be obtained from Franklin's Shareholder Services Department.

HOW SHAREHOLDERS PARTICIPATE IN THE RESULTS OF THE FUND'S ACTIVITIES

The assets of the Fund are invested in portfolio securities. If the securities owned by the Fund increase in value, the value of the shares of the Fund which the shareholder owns will increase. If the securities owned by the Fund decrease in value, the value of the shareholder's shares will also decline. In this way, shareholders participate in any change in the value of the securities owned by the Fund.

TAXATION OF THE FUND AND ITS SHAREHOLDERS

The following discussion reflects some of the tax considerations that affect mutual funds and their shareholders. Additional information on tax matters relating to the Fund and its shareholders is included in the section entitled, "Additional Information Regarding Taxation" in the Statement of Additional Information.

The Fund has elected to be treated as a regulated investment company under Subchapter M of the Code, qualified as such and intends to continue to so qualify. By distributing all of its income, and meeting certain other requirements relating to the sources of its income and diversification of its assets, the Fund will not be liable for federal income or excise taxes. By meeting certain requirements of the Code, the Fund has qualified and continues to qualify to pay exempt-interest dividends to its shareholders. Such exempt-interest dividends are derived from interest income exempt from regular federal income tax, and are not subject to regular federal income tax for Fund shareholders.

To the extent dividends are derived from taxable income from temporary investments (including the discount from certain stripped obligations or their coupons or income from securities loans or other taxable transactions), from the excess of net short-term capital gain over net long-term capital loss, or from ordinary income derived from the sale or disposition of bonds purchased with market discount after April 30, 1993, they are treated as ordinary income whether the shareholder has elected to receive them in cash or in additional shares.

From time to time, the Fund may purchase a tax-exempt obligation with market discount; that is, for a price that is less than the principal amount of the bond. For such obligations purchased after April 30, 1993, a portion of the gain on sale or disposition (not to exceed the accrued portion of market discount as of the time of sale or disposition) is treated as ordinary income rather than capital gain. Any distribution by the Fund of such ordinary income to its shareholders will be subject to regular federal and state income taxes in the hands of Fund shareholders. In any fiscal year, the Fund may elect not to distribute to its shareholders its taxable ordinary income and to instead, pay federal income or excise taxes on this income at the Fund level. The amount of such distributions, if any, is expected to be small.

Pursuant to the Code, certain distributions which are declared in October, November or December but which, for operational reasons, may not be paid to the shareholder until the following January,

12

will be treated, for tax purposes, as if received by the shareholder on December 31 of the calendar year in which they are declared.

Distributions derived from the excess of net long-term capital gain over net short-term capital loss are treated as long-term capital gain regardless of the length of time the shareholder has owned Fund shares and regardless of whether such distributions are received in cash or in additional shares.

Redemptions and exchanges of Fund shares are taxable events on which a shareholder may realize a gain or loss. Any loss incurred on sale or exchange of the Fund's shares, held for six months or less, will be treated as a long-term capital loss to the extent of capital gain dividends received with respect to such shares and will be disallowed to the extent of exempt-interest dividends paid with respect to such shares.

All or a portion of the sales charge incurred in purchasing shares of the Fund will not be included in the federal tax basis of such shares sold or exchanged within ninety (90) days of their purchase (for purposes of determining gain or loss with respect to such shares) if the sales proceeds are reinvested in the Fund or in another fund in the Franklin Group of Funds and the Templeton Group and a sales charge which would otherwise apply to the reinvestment is reduced or eliminated. Any portion of such sales charge excluded from the tax basis of the shares sold will be added to the tax basis of the shares acquired in the reinvestment. Shareholders should consult with their tax advisors concerning the tax rules applicable to the redemption or exchange of fund shares.

Since the Fund's income is derived from interest income and gain on the sale of portfolio securities rather than dividend income, no portion of the Fund's distributions will generally be eligible for the corporate dividends-received deduction. None of the distributions paid by the Fund for the fiscal year ended April 30, 1994 qualified for this deduction and it is not anticipated that any of the current year's dividends will so qualify.

The Fund will inform shareholders of the source of their dividends and distributions at the time they are paid, and will promptly after the close of each calendar year advise them of the tax status for federal income tax purposes of such dividends and distributions, including the portion of the dividends on an average basis which constitutes taxable income or a tax preference item under the federal alternative minimum tax. Shareholders who have not held shares of the Fund for a full calendar year may have designated as tax-exempt or as tax preference income a percentage of income which is not equal to the actual amount of tax-exempt or tax preference income earned during the period of their investment in the Fund.

Exempt-interest dividends of the Fund, although exempt from regular federal income tax in the hands of a shareholder, are includable in the tax base for determining the extent to which a shareholder's social security or railroad retirement benefits will be subject to regular federal income tax. Shareholders are required to disclose the receipt of tax-exempt interest dividends on their federal income tax returns.

Interest on indebtedness incurred (directly or indirectly) by shareholders to purchase or carry Fund shares may not be fully deductible for federal income tax purposes.

Shareholders should consult their tax advisors with respect to the applicability of state and local intangible property or income taxes to their shares in the Fund and to distributions and redemption proceeds received from the Fund. For example, distributions attributable to interest received from, or capital gain derived from the disposition of, obliga-

13

tions of a given state or its political subdivisions may be exempt from income taxes in that state. Shareholders who are not U.S. persons for purposes of

federal income taxation should consult with their financial or tax advisors regarding the applicability of U.S. withholding or other taxes on distributions received by them from the Fund and the application of foreign tax laws to these distributions.

HOW TO BUY SHARES OF THE FUND

Shares of the Fund are continuously offered through securities dealers which execute an agreement with Distributors, the principal underwriter of the Fund's shares. The use of the term "securities dealer" shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference, however, is for convenience only and does not indicate a legal conclusion of capacity. The minimum initial investment is \$100 and subsequent investments must be \$25 or more. These minimums may be waived when the shares are purchased through plans established at Franklin. The Fund and Distributors reserve the right to refuse any order for the purchase of shares.

PURCHASE PRICE OF FUND SHARES

Shares of the Fund are offered at the public offering price, which is the net asset value per share, plus a sales charge, next computed (1) after the shareholder's securities dealer receives the order which is promptly transmitted to the Fund, or (2) after receipt of an order by mail from the shareholder directly in proper form (which generally means a completed Shareholder Application accompanied by a negotiable check). The sales charge is a variable percentage of the offering price depending upon the amount of the sale. On orders for 100,000 shares or more, the offering price will be calculated to four decimal places. On orders for less than 100,000 shares, the offering price will be calculated to two decimal places using standard rounding criteria. A description of the method of calculating net asset value per share is included under the caption "Valuation of Fund Shares." Set forth below is a table of total sales charges or underwriting commissions and dealer concessions.

<TABLE>
<CAPTION>

Size of Transaction at Offering Price	Total Sales Charge		
	As a Percentage of Offering Price	As a Percentage of Net Amount Invested	Dealer Concession As a Percentage of Offering Price*
<S>	<C>	<C>	<C>
Less than \$100,000	4.25%	4.44%	4.00%
\$100,000 but less than \$250,000	3.50%	3.63%	3.25%
\$250,000 but less than \$500,000	2.75%	2.83%	2.50%
\$500,000 but less than \$1,000,000	2.15%	2.20%	2.00%
\$1,000,000 through \$2,500,000	1.00%	1.01%	1.00%

</TABLE>

*Financial institutions or their affiliated brokers may receive an agency transaction fee in the percentages set forth above.

On purchases in excess of \$2,500,000, the sales charge is 1% of the offering price on the first \$2,500,000, plus 0.5% on the next \$2,500,000, plus 0.25% on the excess over \$5,000,000. Sales charges on purchases of \$1,000,000 or more are paid to the securities dealer, if any, involved in the trade, who may therefore be deemed an "underwriter" under the Securities Act of 1933, as amended.

The size of a transaction which determines the applicable sales charge on the purchase of Fund shares is determined by adding the amount of the shareholder's current purchase plus the cost or current value (whichever is higher) of a shareholder's existing investment in one or more of the many funds in the Franklin Group of Funds(R) and the Templeton Group of Funds. Included for these purposes are (a) the open-end investment companies in the Franklin Group (except Franklin Valuemark Funds and Franklin Government Securities Trust) (the "Franklin Group of Funds"), (b) other investment products in the Franklin Group underwritten by Distributors or its affiliates (although certain investments may not have the same schedule of sales charges and/or may not be subject to reduction) (the products in subparagraphs (a) and (b) are referred to as the "Franklin Group") and (c) the open-end U.S. registered investment companies in the Templeton Group of Funds except Templeton American Trust, Inc., Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, and Templeton Variable Products Series Fund (the "Templeton Group"). Purchases pursuant to a Letter of Intent for more than \$2,500,000 will be at a 1% sales charge until cumulative purchases reach \$2,500,000 and at the incremental sales charge on the excess over \$2,500,000. Purchases pursuant to the Rights of Accumulation will be at the applicable sales charge of 1% or more until the additional purchase, plus the value of the account or the amount previously invested, less redemptions, exceeds \$2,500,000, in which event the sales charge on the excess will be calculated as stated above. Sales charge reductions based upon purchases in more than one of the funds in the Franklin Group or Templeton Group (the "Franklin/Templeton Group") may be effective only

after notification to Distributors that the investment qualifies for a discount.

Distributors or its affiliates, at their expense, may also provide additional compensation to dealers in connection with sales of shares of the Fund and other funds in the Franklin Group of Funds or the Templeton Group. Compensation may include financial assistance to dealers in connection with conferences, sales or training programs for their employees, seminars for the public, advertising, sales campaigns and/or shareholder services and programs regarding one or more of the Franklin Group of Funds or the Templeton Group and other dealer-sponsored programs or events. In some instances, this compensation may be made available only to certain dealers whose representatives have sold or are expected to sell significant amounts of such shares. Compensation may include payment for travel expenses, including lodging, incurred in connection with trips taken by invited registered representatives and members of their families to locations within or outside of the United States for meetings or seminars of a business nature. Dealers may not use sales of the Fund's shares to qualify for this compensation to the extent such may be prohibited by the laws of any state or any self-regulatory agency, such as the National Association of Securities Dealers, Inc. None of the aforementioned additional compensation is paid for by the Fund or its shareholders.

Certain officers and directors of the Fund are also affiliated with Distributors. A detailed description is included in the Statement of Additional Information.

QUANTITY DISCOUNTS IN SALES CHARGES

Shares may be purchased under a variety of plans which provide for a reduced sales charge. To be certain to obtain the reduction of the sales charge, the investor or the dealer should notify Distributors at the time of each purchase of shares which quali-

15

fies for the reduction. In determining whether a purchase qualifies for any of the discounts, investments in any of the Franklin/Templeton Group may be combined with those of the investor's spouse and children under the age of 21. In addition, the aggregate investments of a trustee or other fiduciary account (for an account under exclusive investment authority) may be considered in determining whether a reduced sales charge is available, even though there may be a number of beneficiaries of the account.

In addition, an investment in the Fund may qualify for a reduction in the sales charge under the following programs:

1. Rights of Accumulation. The cost or current value (whichever is higher) of existing investments in the Franklin/Templeton Group may be combined with the amount of the current purchase in determining the sales charge to be paid.
2. Letter of Intent. An investor may immediately qualify for a reduced sales charge on a purchase of shares of the Fund by completing the Letter of Intent section of the Shareholder Application (the "Letter of Intent" or "Letter"). By completing the Letter, the investor expresses an intention to invest during the next 13 months a specified amount which if made at one time would qualify for a reduced sales charge. At any time within 90 days after the first investment which the investor wants to qualify for the reduced sales charge, a signed Shareholder Application, with the Letter of Intent section completed, may be filed with the Fund. After the Letter of Intent is filed, each additional investment made will be entitled to the sales charge applicable to the level of investment indicated on the Letter of Intent as described above. Sales charge reductions based upon purchases in more than one company in the Franklin/Templeton Group will be effective only after notification to Distributors that the investment qualifies for a discount. The shareholder's holdings in the Franklin/Templeton Group acquired more than 90 days before the Letter of Intent is filed will be counted towards completion of the Letter of Intent but will not be entitled to a retroactive downward adjustment of sales charge. Any redemptions made by the shareholder during the 13-month period will be subtracted from the amount of the purchases for purposes of determining whether the terms of the Letter of Intent have been completed. If the Letter of Intent is not completed within the 13-month period, there will be an upward adjustment of the sales charge as specified below, depending upon the amount actually purchased (less redemptions) during the period. An investor who executes a Letter of Intent prior to the change in the sales charge structure for the Fund will be entitled to complete the Letter at the lower of (i) the new sales charge structure; or (ii) the sales charge structure in effect at the time the Letter was filed with the Fund.

AN INVESTOR ACKNOWLEDGES AND AGREES TO THE FOLLOWING PROVISIONS BY COMPLETING THE LETTER OF INTENT SECTION OF THE SHAREHOLDER APPLICATION: Five percent (5%) of the amount of the total intended purchase will be reserved in shares of the Fund, registered in the investor's name, to assure that the full applicable sales charge will be paid if the intended purchase is not completed. The reserved shares will be included in the total shares owned as reflected on the

periodic statements; income and capital gain distributions on the reserved shares will be paid as directed by the investor. The reserved shares will not be available for disposal by the investor until the Letter of Intent has been completed, or the higher sales charge paid. If the total purchases,

16

less redemptions, equal the amount specified under the Letter, the reserved shares will be deposited to an account in the name of the investor or delivered to the investor or the investor's order. If the total purchases, less redemptions, exceed the amount specified under the Letter and is an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made by Distributors and the dealer through whom purchases were made pursuant to the Letter of Intent (to reflect such further quantity discount) on purchases made within 90 days before, and on those made after filing the Letter. The resulting difference in offering price will be applied to the purchase of additional shares at the offering price applicable to a single purchase or the dollar amount of the total purchases. If the total purchases, less redemptions, are less than the amount specified under the Letter, the investor will remit to Distributors an amount equal to the difference in the dollar amount of sales charge actually paid and the amount of sales charge which would have applied to the aggregate purchases if the total of such purchases had been made at a single time. Upon such remittance the reserved shares held for the investor's account will be deposited to an account in the name of the investor or delivered to the investor or to the investor's order. If within 20 days after written request such difference in sales charge is not paid, the redemption of an appropriate number of reserved shares to realize such difference will be made. In the event of a total redemption of the account prior to fulfillment of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption and the balance will be forwarded to the investor. By completing the Letter of Intent section of the Shareholder Application, an investor grants to Distributors a security interest in the reserved shares and irrevocably appoints Distributors as attorney-in-fact, with full power of substitution to surrender for redemption any or all shares for the purpose of paying any additional sales charge due. Purchases under the Letter of Intent will conform with the requirements of Rule 22d-1 under the 1940 Act. The investor or the investor's securities dealer must inform Investor Services or Distributors that this Letter is in effect each time a purchase is made.

Additional terms concerning the offering of the Fund's shares are included in the Statement of Additional Information.

GROUP PURCHASES

An individual who is a member of a qualified group may also purchase shares of the Fund at the reduced sales charge applicable to the group as a whole. The sales charge is based upon the aggregate dollar value of shares previously purchased and still owned by the group, plus the amount of the current purchase. For example, if members of the group had previously invested and still held \$80,000 of Fund shares and now were investing \$25,000, the sales charge would be 3.50%. Information concerning the current sales charge applicable to a group may be obtained by contacting Distributors.

A "qualified group" is one which (i) has been in existence for more than six months, (ii) has a purpose other than acquiring Fund shares at a discount and (iii) satisfies uniform criteria which enable Distributors to realize economies of scale in its costs of distributing shares. A qualified group must have more than 10 members, must be available to arrange for group meetings between representatives of the Fund or Distributors and the members, must agree to include sales and other materials related to the Fund in its publications and mailings to members at reduced or no cost to Distributors, and must seek to arrange for payroll deduction or other bulk transmission of investments to the Fund.

If an investor selects a payroll deduction plan, subsequent investments will be automatic and will

17

continue until such time as the investor notifies the Fund and the investor's employer to discontinue further investments. Due to the varying procedures used to prepare, process and to forward the payroll deduction information to the Fund, there may be a delay between the time of the payroll deduction and the time the money reaches the Fund. The investment in the Fund will be made at the offering price per share determined on the day that both the check and payroll deduction data are received in required form by the Fund.

PURCHASES AT NET ASSET VALUE

Shares of the Fund may be purchased at net asset value (without sales charge) by trust companies and bank trust departments for funds over which they

exercise exclusive discretionary investment authority and which are held in a fiduciary, agency, advisory, custodial or similar capacity. Such purchases are subject to minimum requirements with respect to amount of purchase, which may be established by Distributors. Currently, those criteria require that the amount invested or to be invested during the subsequent 13-month period in this Fund or any other company in the Franklin/Templeton Group must total at least \$1,000,000. Orders for such accounts will be accepted by mail accompanied by a check, or by telephone or other means of electronic data transfer directly from the bank or trust company, with payment by federal funds received by the close of business on the next business day following such order. If an investment by a trust company or bank trust department at net asset value is made through a dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

Shares of the Fund may be purchased at net asset value by persons who have redeemed, within the previous 120 days, their shares of the Fund or another fund in the Franklin Group of Funds or the Templeton Group which were purchased with a sales charge. An investor may reinvest an amount not exceeding the redemption proceeds. Shares of the Fund redeemed in connection with an exchange into another fund (see "Exchange Privilege") are not considered "redeemed" for this privilege. In order to exercise this privilege, a written order for the purchase of shares of the Fund must be received by the Fund or the Fund's Shareholder Services Agent within 120 days after the redemption. The 120 days, however, do not begin to run on redemption proceeds placed immediately after redemption in a Franklin Bank Certificate of Deposit ("CD") until the CD (including any rollover) matures. Reinvestment at net asset value may also be handled by a securities dealer or other financial institution, who may charge the shareholder a fee for this service. The redemption is a taxable transaction, but reinvestment without a sales charge may affect the amount of gain or loss recognized and the tax basis of the shares reinvested. If there has been a loss on the redemption, the loss may be disallowed if a reinvestment in the same fund is made within a 30-day period. Information regarding the possible tax consequences of such a reinvestment is included in the tax section of this Prospectus and in the Statement of Additional Information.

Shares of the Fund may also be purchased at net asset value by (1) officers, directors and full-time employees of the Fund or any fund in the Franklin Group of Funds or the Templeton Group, the Manager and Distributors and affiliates of such companies, if they have been such for at least 90 days, and by their spouses and family members, (2) registered securities dealers and their affiliates, for

18

their investment account only, and (3) registered personnel and employees of securities dealers and by their spouses and family members, in accordance with the internal policies and procedures of the employing securities dealer. Such sales are made upon the written assurance of the purchaser that the purchase is made for investment purposes and that the securities will not be transferred or resold except through redemption or repurchase by or on behalf of the Fund. Employees of securities dealers must obtain a special application from their employers or from Franklin's Sales Department in order to qualify.

Shares of the Fund may also be purchased at net asset value by any state, county, or city, or any instrumentality, department, authority or agency thereof which has determined that the Fund is a legally permissible investment and which is prohibited by applicable investment laws from paying a sales charge or commission in connection with the purchase of shares of any registered management investment company ("an eligible governmental authority"). SUCH INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE SHARES OF THE FUND CONSTITUTE LEGAL INVESTMENTS FOR THEM. Municipal investors considering investment of proceeds of bond offerings into the Fund should consult with expert counsel to determine the effect, if any, of various payments made by the Fund or its investment manager on arbitrage rebate calculations. If an investment by an eligible governmental authority at net asset value is made through a dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

Dealers may place trades to purchase shares of the Fund at net asset value on behalf of investors who have, within the past 60 days, redeemed an investment in a registered management investment company which charges a contingent deferred sales charge and which has investment objectives similar to those of the Fund.

GENERAL

Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law, and banks and financial

institutions selling Fund shares may be required to register as dealers pursuant to state law.

OTHER PROGRAMS AND PRIVILEGES AVAILABLE TO FUND SHAREHOLDERS

CERTAIN OF THE PROGRAMS AND PRIVILEGES DESCRIBED IN THIS SECTION MAY NOT BE AVAILABLE DIRECTLY FROM THE FUND TO SHAREHOLDERS WHOSE SHARES ARE HELD, OF RECORD, BY A FINANCIAL INSTITUTION OR IN A "STREET NAME" ACCOUNT OR NETWORKED ACCOUNT THROUGH THE "NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") (SEE THE SECTION CAPTIONED "ACCOUNT REGISTRATIONS" IN THIS PROSPECTUS).

SHARE CERTIFICATES

Shares for an initial investment, as well as subsequent investments, including the reinvestment of dividends and capital gain distributions, are generally credited to an account in the name of an investor on the books of the Fund, without the issuance of a share certificate. Maintaining shares in uncertificated form (also known as "plan balance") minimizes the risk of loss or theft of a share certificate. A lost, stolen or destroyed certificate cannot be replaced without obtaining a sufficient indemnity bond. The cost of such a bond, which is generally borne by the shareholder, can be 2% or more of the value of the lost, stolen or destroyed certificate.

19

A certificate will be issued if requested in writing by the shareholder or by the securities dealer.

CONFIRMATIONS

A confirmation statement will be sent to each shareholder quarterly to reflect the dividends reinvested during that period and after each other transaction which affects the shareholder's account. This statement will also show the total number of shares owned by the shareholder, including the number of shares in "plan balance" for the account of the shareholder.

AUTOMATIC INVESTMENT PLAN

Under the Automatic Investment Plan, a shareholder may be able to arrange to make additional purchases of shares automatically on a monthly basis by electronic funds transfer from a checking account, if the bank which maintains the account is a member of the Automated Clearing House, or by preauthorized checks drawn on the shareholder's bank account. A shareholder may, of course, terminate the program at any time. The Shareholder Application included with this Prospectus contains the requirements applicable to this program. In addition, shareholders may obtain more information concerning this program from their securities dealers or from Distributors.

The market value of the Fund's shares is subject to fluctuation. Before undertaking any plan for systematic investment, the investor should keep in mind that such a program does not assure a profit or protect against a loss.

SYSTEMATIC WITHDRAWAL PLAN

A shareholder may establish a Systematic Withdrawal Plan and receive regular periodic payments from the account, provided that the net asset value of the shares held by the shareholder is at least \$5,000. There are no service charges for establishing or maintaining a Systematic Withdrawal Plan.

The minimum amount which the shareholder may withdraw is \$50 per withdrawal transaction, although this is merely the minimum amount allowed under the plan and should not be mistaken for a recommended amount. The plan may be established on a monthly, quarterly, semiannual or annual basis. If the shareholder establishes a plan, any capital gain distributions and income dividends paid by the Fund will be reinvested for the shareholder's account in additional shares at net asset value. Payments will then be made from the liquidation of shares at net asset value on the day of the transaction (which is generally the first business day of the month in which the payment is scheduled) with payment generally received by the shareholder three to five days after the date of liquidation. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected withdrawals to another fund in the Franklin Group of Funds or the Templeton Group, to another person, or directly to a checking account. If the bank at which the account is maintained is a member of the Automated Clearing House, the payments may be made automatically by electronic funds transfer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Withdrawals which may be paid in the interim will be sent to the address of record. Liquidation of shares may reduce or possibly exhaust the shares in the shareholder's account, to the extent withdrawals exceed shares earned through dividends and distributions, particularly in the event of a market decline. If the withdrawal amount exceeds the total plan balance, the account will be closed and the remaining balance will be sent to the

shareholder. As with other redemptions, a liquidation to make a withdrawal payment is a sale for federal income tax purposes. Because the amount withdrawn under the plan may be more

20

than the shareholder's actual yield or income, part of the payment may be a return of the shareholder's investment.

The maintenance of a Systematic Withdrawal Plan concurrently with purchases of additional shares of the Fund would be disadvantageous because of the sales charge on the additional purchases. The shareholder should ordinarily not make additional investments of less than \$5,000 or three times the annual withdrawals under the plan during the time such a plan is in effect. A Systematic Withdrawal Plan may be terminated on written notice by the shareholder or the Fund, and it will terminate automatically if all shares are liquidated or withdrawn from the account, or upon the Fund's receipt of notification of the death or incapacity of the shareholder. Shareholders may change the amount (but not below the specified minimum) and schedule of withdrawal payments, or suspend one such payments by giving written notice to Investor Services at least seven business days prior to the end of the month preceding a scheduled payment. Share certificates may not be issued while a Systematic Withdrawal Plan is in effect.

INSTITUTIONAL ACCOUNTS

There may be additional methods of purchasing, redeeming or exchanging shares of the Fund available to institutional accounts. For further information, contact Franklin's Institutional Services Department at 1-800/321-8563.

EXCHANGE PRIVILEGE

The Franklin Group of Funds(R) and the Templeton Group consist of a number of investment companies with various investment objectives or policies. The shares of most of these investment companies are offered to the public with a sales charge. If a shareholder's investment objective or outlook for the securities markets changes, the Fund's shares may be exchanged for shares of other mutual funds in the Franklin Group of Funds or the Templeton Group (as defined under "How to Buy Shares of the Fund") which are eligible for sale in the shareholder's state of residence and in conformity with such fund's stated eligibility requirements and investment minimums. Investors should review the prospectuses of the fund they wish to exchange from and the fund they wish to exchange into for all specific requirements or limitations on exercising the exchange privilege. These requirements or limitations may include, for example, minimum holding periods or applicable sales charges. Exchanges may be made in any of the following ways:

EXCHANGES BY MAIL

Send written instructions signed by all account owners and accompanied by any outstanding share certificates properly endorsed. The transaction will be effective upon receipt of the written instructions together with any outstanding share certificates.

EXCHANGES BY TELEPHONE

SHAREHOLDERS, OR THEIR INVESTMENT REPRESENTATIVE OF RECORD, IF ANY, MAY EXCHANGE SHARES OF THE FUND BY TELEPHONE BY CALLING INVESTOR SERVICES AT 1-800/632-2301. IF THE SHAREHOLDER DOES NOT WISH THIS PRIVILEGE EXTENDED TO A PARTICULAR ACCOUNT, THE FUND OR INVESTOR SERVICES SHOULD BE NOTIFIED. (PLEASE NOTE THAT THIS IS A CHANGE FROM THE CURRENT PROCEDURE WHERE SHAREHOLDERS WOULD NOTIFY THE FUND IF HE OR SHE WISHED TO USE THE PRIVILEGE.)

The Telephone Exchange Privilege allows a shareholder to effect exchanges from the Fund into an identically registered account in one of the other available funds in the Franklin Group of Funds or the Templeton Group. The Telephone Exchange Privilege is available only for uncertificated shares or those which have previously been deposited in a shareholder's account. The Fund and Investor Serv-

21

ices will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. Please refer to "Telephone Transactions - - Verification Procedures."

During periods of drastic economic or market changes, it is possible that the Telephone Exchange Privilege may be difficult to implement. In this event, shareholders should follow the other exchange procedures discussed in this section, including the procedures for processing exchanges through securities dealers.

EXCHANGES THROUGH SECURITIES DEALERS

As is the case with all purchases and redemptions of the Fund's shares, Investor Services will accept exchange orders by telephone or by other means of electronic transmission from securities dealers who execute a dealer or similar agreement with Distributors. See also "Exchanges By Telephone" above. Such a dealer-ordered exchange will be effective only for uncertificated shares on deposit in the shareholder's account or for which certificates have previously been deposited. A securities dealer may charge a fee for handling an exchange.

ADDITIONAL INFORMATION REGARDING EXCHANGES

Exchanges are made on the basis of the net asset values of the funds involved, except as set forth below. Exchanges of shares of the Fund which were purchased without a sales charge will be charged a sales charge in accordance with the terms of the prospectus of the fund being purchased, unless the investment on which no sales charge was paid was transferred in from a fund on which the investor paid a sales charge. Exchanges of shares of the Fund which were purchased with a lower sales charge to a fund which has a higher sales charge will be charged the difference, unless the shares were held in the Fund for at least six months prior to executing the exchange. When an investor requests the exchange of the total value of the Fund account, declared but unpaid income dividends and capital gain distributions will be reinvested in the Fund at the net asset value on the date of the exchange, and then the entire share balance will be exchanged into the new fund in accordance with the procedures set forth above. Because the exchange is considered a redemption and purchase of shares, the shareholder may realize a gain or loss for federal income tax purposes. Backup withholding and information reporting may also apply. Information regarding the possible tax consequences of such an exchange is included in the tax section in this Prospectus and in the Statement of Additional Information.

There are differences among the many funds in the Franklin Group of Funds and the Templeton Group. Before making an exchange, a shareholder should obtain and review a current prospectus of the fund into which the shareholder wishes to transfer.

If a substantial portion of the Fund's shareholders should, within a short period, elect to redeem their shares of the Fund pursuant to the exchange privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. On the other hand, increased use of the exchange privilege may result in periodic large inflows of money. If this should occur, it is the general policy of the Fund to initially invest this money in short-term, interest-bearing municipal securities, unless it is felt that attractive investment opportunities consistent with the Fund's investment objectives exist immediately. Subsequently, this money will be withdrawn from such short-term municipal securities and invested in portfolio securities in as orderly a manner as is possible when attractive investment opportunities arise.

22

The Exchange Privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

TIMING ACCOUNTS

Accounts which are administered by allocation or market timing services to purchase or redeem shares based on predetermined market indicators ("Timing Accounts") will be charged a \$5.00 administrative service fee per each such exchange. All other exchanges are without charge.

RESTRICTIONS ON EXCHANGES

In accordance with the terms of their respective prospectuses, certain funds do not accept or may place differing limitations than those below on exchanges by Timing Accounts.

The Fund reserves the right to temporarily or permanently terminate the exchange privilege or reject any specific purchase order for any Timing Account or any person whose transactions seem to follow a timing pattern who: (i) make an exchange request out of the Fund within two weeks of an earlier exchange request out of the Fund, or (ii) make more than two exchanges out of the Fund per calendar quarter, or (iii) exchange shares equal in value to at least \$5 million, or more than 1% of the Fund's net assets. Accounts under common ownership or control, including accounts administered so as to redeem or purchase shares based upon certain predetermined market indicators, will be aggregated for purposes of the exchange limits.

The Fund reserves the right to refuse the purchase side of exchange requests by any Timing Account, person, or group if, in the Manager's judgment, the Fund would be unable to invest effectively in accordance with its investment objectives and policies, or would otherwise potentially be adversely affected. A shareholder's purchase exchanges may be restricted or refused if the Fund

receives or anticipates simultaneous orders affecting significant portions of the Fund's assets. In particular, a pattern of exchanges that coincide with a "market timing" strategy may be disruptive to the Fund and therefore may be refused.

The Fund and Distributors also, as indicated in "How to Buy Shares of the Fund," reserve the right to refuse any order for the purchase of shares.

HOW TO SELL SHARES OF THE FUND

A shareholder may at any time liquidate shares owned and receive from the Fund the value of the shares. Shares may be redeemed in any of the following ways:

REDEMPTIONS BY MAIL

Send a written request, signed by all registered owners, to Investor Services, at the address shown on the back cover of this Prospectus, and any share certificates which have been issued for the shares being redeemed, properly endorsed and in order for transfer. The shareholder will then receive from the Fund the value of the shares based upon the net asset value per share next computed after the written request in proper form is received by Investor Services. Redemption requests received after the time at which the net asset value is calculated (at 1:00 p.m. Pacific time) each day that the New York Stock Exchange (the "Exchange") is open for business will receive the price calculated on the following business day. Shareholders are requested to provide a telephone number(s) where they may be reached during business hours, or in the evening if preferred. Investor Services' ability to contact a shareholder promptly when necessary will speed the processing of the redemption.

23

TO BE CONSIDERED IN PROPER FORM, SIGNATURE(S) MUST BE GUARANTEED IF THE REDEMPTION REQUEST INVOLVES ANY OF THE FOLLOWING:

- (1) the proceeds of the redemption are over \$50,000;
- (2) the proceeds (in any amount) are to be paid to someone other than the registered owner(s) of the account;
- (3) the proceeds (in any amount) are to be sent to any address other than the shareholder's address of record, preauthorized bank account or brokerage firm account;
- (4) share certificates, if the redemption proceeds are in excess of \$50,000; or
- (5) the Fund or Investor Services believes that a signature guarantee would protect against potential claims based on the transfer instructions, including, for example, when (a) the current address of one or more joint owners of an account cannot be confirmed, (b) multiple owners have a dispute or give inconsistent instructions to the Fund, (c) the Fund has been notified of an adverse claim, (d) the instructions received by the Fund are given by an agent, not the actual registered owner, (e) the Fund determines that joint owners who are married to each other are separated or may be the subject of divorce proceedings, or (f) the authority of a representative of a corporation, partnership, association, or other entity has not been established to the satisfaction of the Fund.

Signature(s) must be guaranteed by an "eligible guarantor institution" as defined under Rule 17Ad-15 under the Securities Exchange Act of 1934. Generally, eligible guarantor institutions include (1) national or state banks, savings associations, savings and loan associations, trust companies, savings banks, industrial loan companies and credit unions; (2) national securities exchanges, registered securities associations and clearing agencies; (3) securities dealers which are members of a national securities exchange or a clearing agency or which have minimum net capital of \$100,000; or (4) institutions that participate in the Securities Transfer Agent Medallion Program ("STAMP") or other recognized signature guarantee medallion program. A notarized signature will not be sufficient for the request to be in proper form.

Where shares to be redeemed are represented by share certificates, the request for redemption must be accompanied by the share certificate and a share assignment form signed by the registered shareholders exactly as the account is registered, with the signature(s) guaranteed as referenced above. Shareholders are advised, for their own protection, to send the share certificate and assignment form in separate envelopes if they are being mailed in for redemption.

Liquidation requests of corporate, partnership, trust and custodianship accounts, and accounts under court jurisdiction require the following documentation to be in proper form:

Corporation - (1) Signature guaranteed letter of instruction from the

authorized officer(s) of the corporation, and (2) a corporate resolution.

Partnership - (1) Signature guaranteed letter of instruction from a general partner and (2) pertinent pages from the partnership agreement identifying the general partners or a certification for a partnership agreement.

Trust - (1) Signature guaranteed letter of instruction from the trustee(s) and (2) a copy of the pertinent pages of the trust document listing the trustee(s) or a Certification for Trust if the trustee(s) are not listed on the account registration.

24

Custodial (other than a retirement account) - Signature guaranteed letter of instruction from the custodian.

Accounts under court jurisdiction - Check court documents and the applicable state law since these accounts have varying requirements, depending upon the state of residence.

Payment for redeemed shares will be sent to the shareholder within seven days after receipt of the request in proper form.

REDEMPTIONS BY TELEPHONE

SHAREHOLDERS WHO FILE A TELEPHONE TRANSACTION APPLICATION (THE "APPLICATION") MAY REDEEM SHARES OF THE FUND BY TELEPHONE. THE APPLICATION MAY BE OBTAINED BY WRITING TO THE FUND OR INVESTOR SERVICES AT THE ADDRESS SHOWN ON THE COVER OR BY CALLING 1-800/632-2301. THE FUND AND INVESTOR SERVICES WILL EMPLOY REASONABLE PROCEDURES TO CONFIRM THAT INSTRUCTIONS GIVEN BY TELEPHONE ARE GENUINE. SHAREHOLDERS, HOWEVER, BEAR THE RISK OF LOSS IN CERTAIN CASES AS DESCRIBED UNDER "TELEPHONE TRANSACTIONS - VERIFICATION PROCEDURES."

For shareholder accounts with a completed Application on file, redemptions of uncertificated shares or shares which have previously been deposited with the Fund or Investor Services may be made for up to \$50,000 per day per Fund account. Telephone redemption requests received before 1:00 p.m. Pacific time on any business day will be processed that same day. The redemption check will be sent within seven days, made payable to all the registered owners on the account, and will be sent only to the address of record. Redemption requests by telephone will not be accepted within 30 days following an address change by telephone. In that case, a shareholder should follow the other redemption procedures set forth in this Prospectus. Institutional accounts (certain corporations, bank trust departments, government entities, and qualified retirement plans which qualify to purchase shares at net asset value pursuant to the terms of this Prospectus) which desire to execute redemptions in excess of \$50,000 must complete an Institutional Telephone Privileges Agreement which is available from Franklin's Institutional Services Department by telephoning 1-800/321-8563.

REDEEMING SHARES THROUGH SECURITIES DEALERS

The Fund will accept redemption orders by telephone or other means of electronic transmission from securities dealers who have entered into a dealer or similar agreement with Distributors. This is known as a repurchase. The only difference between a normal redemption and a repurchase is that if the shareholder redeems shares through a dealer, the redemption price will be the net asset value next calculated after the shareholder's dealer receives the order which is promptly transmitted to the Fund, rather than on the day the Fund receives the shareholder's written request in proper form. These documents, as described in the preceding section, are required even if the shareholder's securities dealer has placed the repurchase order. After receipt of a repurchase order from the dealer, the Fund will still require a signed letter of instruction and all other documents set forth above. A shareholder's letter should reference the Fund, the account number, the fact that the repurchase was ordered by a dealer and the dealer's name. Details of the dealer-ordered trade, such as trade date, confirmation number, and the amount of shares or dollars, will help speed processing of the redemption. The seven-day period within which the proceeds of the shareholder's redemption will be sent will begin when the Fund receives all documents required to complete ("settle") the repurchase in proper form. The redemption proceeds will not earn dividends or interest during the time between receipt of the dealer's repurchase order and the date the redemption is processed upon receipt of all documents necessary to settle the repur-

25

chase. Thus, it is in a shareholder's best interest to have the required documentation completed and forwarded to the Fund as soon as possible. The shareholder's dealer may charge a fee for handling the order. The Statement of Additional Information contains more information on the redemption of shares.

ADDITIONAL INFORMATION REGARDING REDEMPTIONS

The Fund may delay the mailing of the redemption check, or a portion thereof, until the clearance of the check used to purchase Fund shares, which may take up to 15 days or more. Although the use of a certified or cashier's check will generally reduce this delay, shares purchased with these checks will also be held pending clearance. Shares purchased by federal funds wire are available for immediate redemption. In addition, the right of redemption may be suspended or the date of payment postponed if the Exchange is closed (other than customary closing) or upon the determination of the SEC that trading on the Exchange is restricted or an emergency exists, or if the SEC permits it, by order, for the protection of shareholders. Of course, the amount received may be more or less than the amount invested by the shareholder, depending on fluctuations in the market value of securities owned by the Fund.

OTHER

For any information required about a proposed liquidation, a shareholder may call Franklin's Shareholder Services Department or the securities dealer may call Franklin's Dealer Services Department.

TELEPHONE TRANSACTIONS

Shareholders of the Fund and their investment representative of record, if any, may be able to execute various transactions by calling Investor Services at 1-800/632-2301.

All shareholders will be able to: (i) effect a change in address, (ii) change a dividend option, (iii) transfer Fund shares in one account to another identically registered account in the Fund, (iv) exchange Fund shares as described in this Prospectus by telephone. In addition, shareholders who complete and file an Application as described under "How to Sell Shares of the Fund - Redemptions by Telephone" will be able to redeem shares of the Fund.

VERIFICATION PROCEDURES

The Fund and Investor Services will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. These will include: recording all telephone calls requesting account activity by telephone, requiring that the caller provide certain personal and/or account information requested by the telephone service agent at the time of the call for the purpose of establishing the caller's identification, and by sending a confirmation statement on redemptions to the address of record each time account activity is initiated by telephone. So long as the Fund and Investor Services follow instructions communicated by telephone which were reasonably believed to be genuine at the time of their receipt, neither they nor their affiliates will be liable for any loss to the shareholder caused by an unauthorized transaction. Shareholders are, of course, under no obligation to apply for or accept telephone transaction privileges. In any instance where the Fund or Investor Services is not reasonably satisfied that instructions received by telephone are genuine, the requested transaction will not be executed, and neither the Fund nor Investor Services will be liable for any losses which may occur because of a delay in implementing a transaction.

GENERAL

During periods of drastic economic or market changes, it is possible that the telephone transaction privileges will be difficult to execute because

26

of heavy telephone volume. In such situations, shareholders may wish to contact their investment representative for assistance, or to send written instructions to the Fund as detailed elsewhere in this Prospectus.

Neither the Fund nor Investor Services will be liable for any losses resulting from the inability of a shareholder to execute a telephone transaction.

The telephone transaction privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

VALUATION OF FUND SHARES

The net asset value per share of the Fund is determined as of 1:00 p.m. Pacific time each day that the Exchange is open for trading. Many newspapers carry daily quotations of the prior trading day's closing "bid" (net asset value) and "ask" (offering price, which includes the maximum sales charge of the Fund).

The net asset value per share of the Fund is determined in the following manner: The aggregate of all liabilities, accrued expenses and taxes and any necessary reserves is deducted from the aggregate gross value of all assets, and the difference is divided by the number of shares of the Fund outstanding at the time. For the purpose of determining the aggregate net assets of the

Fund, cash and receivables are valued at their realizable amounts. Interest is recorded as accrued. Portfolio securities for which market quotations are readily available are valued within the range of the most recent bid and ask prices as obtained from one or more dealers that make markets in the securities. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market as determined by the Manager. Municipal securities generally trade in the over-the-counter market rather than on a securities exchange. Other securities for which market quotations are readily available are valued at the current market price, which may be obtained from a pricing service, based on a variety of factors, including recent trades, institutional size trading in similar types of securities (considering yield, risk and maturity) and/or developments related to specific issues. Securities and other assets for which market prices are not readily available are valued at fair value as determined following procedures approved by the Board of Directors. All money market instruments with a maturity of more than 60 days are valued at current market, as discussed above. All money market instruments with a maturity of 60 days or less are valued at their amortized cost, which the Board of Directors has determined in good faith constitutes fair value for purposes of complying with the 1940 Act. This valuation method will continue to be used until such time as the directors determine that it does not constitute fair value for such purposes. With the approval of directors, the Fund may utilize a pricing service, bank or securities dealer to perform any of the above described functions.

HOW TO GET INFORMATION
REGARDING AN INVESTMENT IN THE FUND

Any questions or communications regarding a shareholder's account should be directed to Investor Services at the address shown on the back cover of this Prospectus.

From a touch-tone phone, shareholders may obtain current price, yield or performance information specific to a fund in the Franklin Group of Funds(R) by calling the automated Franklin TeleFACTS(R) system (day or night) at 1-800/247-1753. Information about the Fund may be accessed by entering Fund Code 16 followed by the # sign, when requested to do so by the automated operator. (The TeleFACTS system is also available for exchange transactions. See "Exchange Privilege.")

To assist shareholders and securities dealers wishing to speak directly with a representative, the following is a list of the various Franklin departments, telephone numbers and hours of operation to call. The same numbers may be used when calling from a rotary phone:

<TABLE>
<CAPTION>

Department Name	Telephone No.	Hours of Operation (Pacific time) (Monday through Friday)
<S>	<C>	<C>
Shareholder Services	1-800/632-2301	6:00 a.m. to 5:00 p.m.
Dealer Services	1-800/524-4040	6:00 a.m. to 5:00 p.m.
Fund Information	1-800/DIAL BEN	6:00 a.m. to 8:00 p.m. 8:30 a.m. to 5:00 p.m. (Saturday)
Retirement Plans	1-800/527-2020	6:00 a.m. to 5:00 p.m.
TDD (hearing impaired)	1-800/851-0637	6:00 a.m. to 5:00 p.m.

</TABLE>

PERFORMANCE

Advertisements, sales literature and communications to shareholders may contain various measures of the Fund's performance, including current yield, tax equivalent yield, various expressions of total return, current distribution rate and taxable equivalent distribution rate. They may occasionally cite statistics to reflect its volatility or risk.

Average annual total return figures as prescribed by the SEC represent the average annual percentage change in value of \$1,000 invested at the maximum public offering price (offering price includes sales charge) for one-, five- and ten-year periods, or portion thereof, to the extent applicable, through the end of the most recent calendar quarter, assuming reinvestment of all distributions. The Fund may also furnish total return quotations for other periods or based on investments at various sales charge levels or at net asset value. For such purposes total return equals the total of all income and capital gain paid to shareholders, assuming reinvestment of all distributions, plus (or minus) the change in the value of the original investment, expressed as a percentage of the purchase price. Current yield reflects the income per share earned by the Fund's portfolio investments; it is calculated by dividing the Fund's net investment income per share during a recent 30-day period by the maximum public offering price on the last day of that period and annualizing the result. Tax equivalent yield demonstrates the yield from a taxable

investment necessary to produce an after-tax yield equivalent to that of a fund which invests in tax-exempt obligations. It is computed by dividing the tax-exempt portion of a fund's yield (calculated as indicated) by one minus a stated income tax rate and adding the product to the taxable portion (if any) of the fund's yield.

Current yield and tax equivalent yield which are calculated according to a formula prescribed by the SEC (see the Statement of Additional Information) are not indicative of the dividends or distributions which were or will be paid to the Fund's shareholders. Dividends or distributions paid to shareholders are reflected in the current distribution rate or taxable equivalent distribution rate, which may be quoted to shareholders. The current distribution rate is computed by dividing the total amount of dividends per share paid by the Fund during the past 12 months by a current maximum offering price. A taxable equivalent distribution rate demon-

28

strates the taxable distribution rate necessary to produce an after tax distribution rate equivalent to the Fund's distribution rate (calculated as indicated above). Under certain circumstances, such as when there has been a change in the amount of dividend payout, or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid during the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as short-term capital gain, and is calculated over a different period of time.

In each case performance figures are based upon past performance, reflect all recurring charges against Fund income and will assume the payment of the maximum sales charge on the purchase of shares. When there has been a change in the sales charge structure, the historical performance figures will be restated to reflect the new rate. The investment results of the Fund, like all other investment companies, will fluctuate over time; thus, performance figures should not be considered to represent what an investment may earn in the future or what the Fund's yield, tax equivalent yield, distribution rate, taxable equivalent distribution rate or total return may be in any future period.

GENERAL INFORMATION

REPORTS TO SHAREHOLDERS

The Fund's fiscal year ends April 30. Annual Reports containing audited financial statements, and the auditor's report thereof, of the Fund and Semi-Annual Reports containing unaudited financial statements are automatically sent to shareholders. Additional copies may be obtained, without charge, upon request to the Trust at the telephone number or address set forth on the cover page of this prospectus. Additional information on Fund performance will be included in the Fund's Annual Report to Shareholders.

VOTING RIGHTS

Shares of the Fund have cumulative voting rights, which means that in all elections of directors, each shareholder has the right to cast a number of votes equal to his number of shares of common stock multiplied by the number of directors to be elected at such election and each shareholder may cast the whole number of votes for one candidate or distribute such votes among two or more candidates.

The Fund does not intend to hold routine annual shareholders' meetings. The Fund may, however, hold a meeting for such purposes as changing fundamental investment restrictions, approving a new management agreement or any other matters which are required to be acted on by shareholders under the 1940 Act. A meeting may also be called by a majority of the Board of Directors or by shareholders holding at least ten percent of the shares entitled to vote at the meeting. Shareholders may receive assistance in communicating with other shareholders in connection with the election or removal of directors such as that provided in Section 16(c) of the 1940 Act.

REDEMPTIONS BY THE FUND

The Fund reserves the right to redeem, at net asset value, shares of any shareholder whose account has been in existence for at least 12 months and has a value of less than \$50, but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares and has been inactive (except for the reinvestment of distributions) for a period of at least six months, provided advance notice is given to the shareholder.

29

More information is included in the Statement of Additional Information.

OTHER INFORMATION

Distribution or redemption checks sent to shareholders do not earn interest or any other income during the time such checks remain uncashed and neither the Fund nor its affiliates will be liable for any loss to the shareholder caused by the shareholder's failure to cash such check(s).

"Cash" payments to or from the Fund may be made by check, draft or wire. The Fund has no facility to receive, or pay out, cash in the form of currency.

ACCOUNT REGISTRATIONS

An account registration should reflect the investor's intentions as to ownership. Where there are two co-owners on the account, the account will be registered as "Owner 1" and "Owner 2"; the "or" designation is not used except for money market fund accounts. If co-owners wish to have the ability to redeem or convert on the signature of only one owner, a limited power of attorney may be used.

Accounts should not be registered in the name of a minor, either as sole or co-owner of the account. Transfer or redemption for such an account may require court action to obtain release of the funds until the minor reaches the legal age of majority. The account should be registered in the name of one "Adult" as custodian for the benefit of the "Minor" under the Uniform Transfer or Gifts to Minors Act.

A trust designation such as "trustee" or "in trust for" should only be used if the account is being established pursuant to a legal, valid trust document. Use of such a designation in the absence of a legal trust document may cause difficulties and require court action for transfer or redemption of the funds.

Shares, whether in certificate form or not, registered as joint tenants or "Jt Ten" shall mean "as joint tenants with rights of survivorship" and not "as tenants in common."

Except as indicated, a shareholder may transfer an account in the Fund carried in "street" or "nominee" name by the shareholder's securities dealer to a comparably registered Fund account maintained by another securities dealer. Both the delivering and receiving securities dealers must have executed dealer agreements on file with Distributors. Unless a dealer agreement has been executed and is on file with Distributors, the Fund will not process the transfer and will so inform the shareholder's delivering securities dealer. To effect the transfer, a shareholder should instruct the securities dealer to transfer the account to a receiving securities dealer and sign any documents required by the securities dealer(s) to evidence consent to the transfer. Under current procedures the account transfer may be processed by the delivering securities dealer and the Fund after the Fund receives authorization in proper form from the shareholder's delivering securities dealer. In the future it may be possible to effect such transfers electronically through the services of the NSCC.

The Fund may conclusively accept instructions from an owner or the owner's nominee listed in publicly available nominee lists, regardless of whether the account was initially registered in the name of or by the owner, the nominee, or both. If a securities dealer or other representative is of record on an investor's account, the investor will be deemed to have authorized the use of electronic instructions on the account, including, without limitation, those initiated through the services of the NSCC, to have adopted as instruction and signature any such electronic instructions received by the Fund and the Shareholder Services Agent, and to have authorized them to execute the instructions without further inquiry. At the present time, such

30

services which are available, or which are anticipated to be made available in the near future, include the NSCC's "Networking," "Fund/SERV," and "ACATS" systems.

Any questions regarding an intended registration should be answered by the securities dealer handling the investment, or by calling Franklin's Fund Information Department.

IMPORTANT NOTICE REGARDING TAXPAYER IRS CERTIFICATIONS

Pursuant to the Code and U.S. Treasury regulations, the Fund may be required to report to the IRS any taxable dividend, capital gain distribution or other reportable payment (including share redemption proceeds) and withhold 31% of any such payments made to individuals and other non-exempt shareholders who have not provided a correct taxpayer identification number ("TIN") and made certain required certifications that appear in the Shareholder Application. A

shareholder may also be subject to backup withholding if the IRS or a broker notifies the Fund that the number furnished by the shareholder is incorrect or that the shareholder is subject to backup withholding for previous under-reporting of interest or dividend income. The Fund reserves the right to (1) refuse to open an account for any person failing to provide a TIN along with the required certifications and (2) close an account by redeeming its shares in full at the then current net asset value upon receipt of notice from the IRS that the TIN certified as correct by the shareholder is in fact incorrect or upon the failure of a shareholder who has completed an "awaiting TIN" certification to provide the Fund with a certified TIN within 60 days after opening the account.

PORTFOLIO OPERATIONS

Following is a list of the persons primarily responsible for the day-to-day portfolio management: Mr. Harrington since inception, Mr. Jennings since 1990 and Ms. Wong since 1986. Their business history for at least the last five years and positions with the Manager are also provided:

Greg Harrington
Senior Vice President
Franklin Advisers, Inc.

Mr. Harrington is a graduate of Mount Saint Mary's College in Maryland and has studied at the New York School of Finance. His experience in the municipal securities industry dates back to 1946. He joined Advisers in 1983.

Andrew Jennings, Sr.
Vice President
Franklin Advisers, Inc.

Mr. Jennings attended Villanova University in Philadelphia, has been in the securities industry for over 33 years and is a member of several municipal securities industry related committees and associations. Mr. Jennings was First Vice President and Manager of the Municipal Institutional Bond Department at Dean Witter Reynolds, Inc. from 1985 to 1990.

Stella Wong
Portfolio Manager
Franklin Advisers, Inc.

Ms. Wong holds a Bachelor of Science degree in Business Administration from San Francisco State University and a Master's degree in Financial Planning from Golden Gate University, and is a member of several industry related committees and associations. She joined Advisers in 1985.

FRANKLIN FUNDS AUTOMATIC INVESTMENT PLAN

FRANKLIN GROUP OF FUNDS (R)
777 MARINERS ISLAND BLVD.
P.O. BOX 7777
SAN MATEO, CA 94403-7777

The Franklin Automatic Investment Plan gives you the convenience (FRANKLIN
of automatically investing in a Fund on a monthly basis. Shares LOGO)
are purchased at the applicable offering price, as indicated in
the Prospectus, next calculated after receipt of funds from your bank. There is
no additional charge for this service by the Fund or Franklin/Templeton Investor
Services, Inc.

Your monthly investments will be made by electronic funds transfer (EFT) from
your checking account if your bank is a member of an Automated Clearing House
(ACH). Otherwise, they will be made by checks prepared by our bank. Your
signature below is the authorizing signature for each transfer or check. This
service is subject to the rules for the bank account, ACH and the Fund.
Franklin may correct any transfer error by a debit or credit to your bank
account and/or Fund account.

You may sign up for the Automatic Investment Plan at the time you open a new
account or any time after you have established an account at Franklin. If the
Automatic Investment Plan is initiated at the time you open your account, the
Fund's minimum initial investment amount is reduced and the account may be
opened with an investment of \$25 or more. Existing account holders may choose
any amount, starting with the \$25 minimum subsequent amount, for investment in
their Fund account from their bank account. All you need to do is complete the
application below and attach a voided, unsigned check which shows your bank
account number in magnetic coding. Please allow up to six weeks for the Plan to
begin.

CHANGING OR DISCONTINUING THE PLAN

When Franklin/Templeton Investor Services, Inc. is advised by you to stop your
Automatic Investment Plan, no investments will be processed until written
notice is received to initiate the Plan again. Franklin will need ten days

written or verbal notice to stop an Automatic Investment Plan prior to an upcoming pay date. Ten days written notice is required if you are changing bank information other than the dollar amount. If a check or transfer is returned to Franklin for any reason, including stop payment, insufficient funds or account closed, your Automatic Investment Plan will be discontinued. Franklin may also change or terminate service by written notice to you.

EXCHANGES

If you exchange shares from one Franklin fund to another, the Automatic Investment Plan does not transfer to the new account, but Franklin will automatically send you a Plan application. Or, you may notify us by telephone if the Plan is to be transferred and credited to a fund other than that listed on the original application.

RETIREMENT ACCOUNTS

When using the Automatic Investment Plan for Franklin Trust Company retirement accounts, all purchases will be credited as a contribution for the year in which they are received. Please be sure to monitor the amount of money credited to your retirement account to avoid making an excess contribution.

<TABLE>

<S> AUTOMATIC INVESTMENT PLAN APPLICATION: <C>

Name(s) _____
(Please print as shown on Franklin account registration.)

Please invest my Automatic investments for \$ _____ per month in:
Franklin Fund Name _____
Franklin Fund Account No. _____

Address _____

Preferred Monthly Date of Checking Account Debit:
1st bank business day on or after the 5th [] or 20th []

Telephone _____

Bank's Name _____

Branch Address _____

Signature(s) _____ Date _____

Name(s) on Bank Account _____

Checking Account No. _____

All registered owners must sign.

Please attach a voided check.

[Franklin Use Only: ABA No. _____]

If you have any questions, please call a Franklin Shareholder Services representative, toll free, at 1-800/632-2301.

</TABLE>

AUTOMATIC INVESTMENT PLAN REVISION - Complete only if you are revising existing Automatic Investment Plan: (and complete section above)

Bank Change _____ Amount Change \$ _____ Other _____
(Attach new voided check) (Indicate new amount)

Note: Please give Franklin ten days written notice to change bank information other than the dollar amount.

PLEASE RETURN THIS FORM TO:

Franklin/Templeton Investor Services, Inc., Attn: AUTOMATIC INVESTMENT PLAN Dept., 777 Mariners Island Blvd., P.O. Box 7777, San Mateo, CA 94403-7777.

20.24/101 A (07/94)

INSTRUCTIONS AND IMPORTANT NOTICE

SUBSTITUTE W-9 INSTRUCTION INFORMATION

GENERAL Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the IRS.

OBTAINING A NUMBER If you do not have a Social Security Number Taxpayer Identification Number or you do not know your SSN TIN, you must obtain Form SS-5 or Form SS-4 from your local Social Security or IRS office and apply for one. If you have checked the "Awaiting TIN" box and signed the certification, withholding will apply to payments relating to your account unless you provide a certified TIN within 60 days.

WHAT SSN TIN TO GIVE Please refer to the following guidelines:

<TABLE>

<CAPTION>

ACCOUNT TYPE GIVE SSN OF ACCOUNT TYPE GIVE EMPLOYER ID # OF

<S> *Individual	<C> Individual	<C> *Trust, Estate, or Pension Plan Trust	<C> Trust, Estate, or Pension Plan Trust
*Joint Individual	Owner who will be paying tax or first-named individual	*Corporation, Partnership, or other organization	Corporation, Partnership, or other organization
*Unif. Gift/Transfer to Minor	Minor	*Broker nominee	Broker nominee
*Sole Proprietor	Owner of business		
*Legal Guardian	Ward, Minor, or Incompetent		

</TABLE>

EXEMPT RECIPIENTS Please provide your TIN and check the "Exempt Recipient" box if you are an exempt recipient. Exempt recipients include:

<S> A corporation	<C> A real estate investment trust
A financial institution	A common trust fund operated by a bank under section 584(a)
An organization exempt from tax under section 501(a), or an individual retirement plan	An exempt charitable remainder trust or a non-exempt trust described in section 4947(a)(1)
A registered dealer in securities or commodities registered in the U.S. or a U.S. possession	An entity registered at all times under the Investment Company Act of 1940

</TABLE>

IRS PENALTIES If you do not supply us with your SSN TIN, you will be subject to an IRS \$50 penalty unless your failure is due to reasonable cause and not willful neglect. If you fail to report income on your federal income tax return, you will be treated as negligent and subject to an IRS 20% penalty or any underpayment of tax attributable to such negligence, unless there was reasonable cause for the resulting underpayment and you acted in good faith. If you falsify information on this form or make any other false statement resulting in no backup withholding on an account which should be subject to backup withholding, you may be subject to an IRS \$500 penalty and certain criminal penalties including fines and imprisonment.

SUBSTITUTE W-8 INSTRUCTIONS INFORMATION

EXEMPT FOREIGN PERSON Check the "Exempt Foreign Person" box if you qualify as a non-resident alien or foreign entity that is not subject to certain U.S. information return reporting or to backup withholding rules. Dividends paid to your account may be subject to withholding of up to 30%. You are an "Exempt Foreign Person" if you are not (1) a citizen or resident of the U.S., or (2) a U.S. corporation, partnership, estate, or trust. In the case of an individual, an "Exempt Foreign Person" is one who has been physically present in the U.S. for less than 31 days during the current calendar year. An individual who is physically present in the U.S. for at least 31 days during the current calendar year will still be treated as an "Exempt Foreign Person," provided that the total number of days physically present in the current calendar year and the two preceding calendar years does not exceed 183 days (counting all of the days in the current calendar year, only one-third of the days in the first preceding calendar year and only one-sixth of the days in the second preceding calendar year). In addition, lawful permanent residents or green card holders may not be treated as "Exempt Foreign Persons." If you are an individual or an entity, you must not now be, or at this time expect to be, engaged in a U.S. trade or business with respect to which any gain derived from transactions effected by the Fund/Payer during the calendar year is effectively connected to the U.S. (or your transactions are exempt from U.S. taxes under a tax treaty).

PERMANENT ADDRESS The Shareholder Application must contain your permanent address if you are an "Exempt Foreign Person." If you are an individual, provide your permanent address. If you are a partnership or corporation, provide the address of your principal office. If you are an estate or trust, provide the address of your permanent residence or the principal office of any fiduciary.

NOTICE OF CHANGE IN STATUS If you become a U.S. citizen or resident after you have provided certification of your foreign status, or if you cease to be an "Exempt Foreign Person," you must notify the Fund/Payer within 30 days of your change in status. Reporting will then begin on the account(s) listed, and backup withholding may also begin unless you certify to the Fund/Payer that (1) the tax payer identification number you have given is correct, and (2) the Internal Revenue Service has not notified you that you are subject to backup withholding because you failed to report certain interest or dividend income. You may use Form W-9, "Payer's Request for Taxpayer Identification Number and Certification," to make these certifications. If an account is no longer active, you do not have to notify a Fund/Payer or broker of your change in status unless you also have another account with the same Fund/Payer that is still active. If you receive interest from more than one Fund/Payer or have

dealings with more than one broker or barter exchange, file a certificate with each. If you have more than one account with the same Fund/Payer, the Fund/Payer may require you to file a separate certificate for each account.

WHEN TO FILE File these certifications with the Fund before a payment is made to you, unless you have already done this in either of the two preceding calendar years.

HOW OFTEN YOU MUST FILE This certificate generally remains in effect for three calendar years. A Fund/Payer or broker, however, may require that a new certificate be filed each time a payment is made. On joint accounts for which each joint owner is a foreign person, each must provide a certificate of foreign status.

3/93

33

THE FRANKLIN/TEMPLETON
TELEPHONE REDEMPTION AUTHORIZATION AGREEMENT

You may use Franklin/Templeton's telephone redemption privilege to redeem uncertificated Franklin/Templeton Fund shares for up to \$50,000 (or your shareholder account balance, whichever is less) per day, per fund account in accordance with the terms of the Funds' prospectus.

The telephone redemption privilege is available only to shareholders who specifically request it. If you would like to add this redemption privilege to the other telephone transaction privileges now automatically available to Franklin/Templeton Fund shareholders, please sign and return this authorization to Franklin/Templeton Investor Services, Inc. ("Services"), transfer agent and shareholder servicing agent for the Franklin/Templeton Funds.

SHAREHOLDER AUTHORIZATION: I/We request the telephone redemption privilege under the terms described below and in the prospectus for each investment company in the Franklin/Templeton Group of Funds (a "Franklin/Templeton Fund" or a "Fund"), now open or opened at a later date, holding shares registered as follows:

Print name(s) as shown in registration (called "Shareholder")

Account number(s)

I/We authorize each Fund and Services to honor and act upon telephone requests, given as provided in this agreement, to redeem shares from any Shareholder account.

<TABLE>

<S>

<C>

Signature(s) of all registered owners and date

Printed name (and title/capacity, if applicable)

</TABLE>

VERIFICATION PROCEDURES: I/We understand and agree that: (1) each Fund and Services will employ reasonable procedures to confirm that redemption instructions communicated by telephone are genuine and that if these confirmation procedures are not followed, the Fund or Services may be liable for any losses due to unauthorized or fraudulent telephone instructions; (2) the confirmation procedures will include the recording of telephone calls requesting redemptions, requiring that the caller provide certain personal and/or account information requested by the telephone service agent at the time of the call for the purpose of establishing the caller's identification, and the sending of confirmation statements to the address of record each time a redemption is initiated by telephone; and (3) as long as the Fund and Services follow the confirmation procedures in acting on instructions communicated by telephone which were reasonably believed to be genuine at the time of receipt, neither they nor their parent or affiliates will be liable for any loss, damages or expenses caused by an unauthorized or fraudulent redemption request.

JOINTLY OWNED/CO-TRUSTEE ACCOUNTS: Each of us signing this agreement as either joint owners or co-trustees authorize each Fund and Services to honor telephone redemption requests given by ANY ONE of the signers or our investment representative of record, if any, ACTING ALONE.

APPOINTMENT OF ATTORNEY-IN-FACT: In order to issue telephone redemption

requests acting alone, each of us individually makes the following appointment: I hereby appoint the other joint owner(s)/co-trustee(s) as my agent(s) (attorney[s]-in-fact) with full power and authority to individually act for me in any lawful way with respect to the issuance of instructions to a Fund or Services in accordance with the telephone redemption privilege we have requested by signing this agreement. This appointment shall not be affected by my subsequent disability or incompetency and shall remain in effect until it is revoked by either written notice from any one of us delivered to a Fund or Services by registered mail, return receipt requested, or by a Fund or Services upon receipt of any information that causes a Fund or Services to believe in good faith that there is or that there may be a dispute among any of us with respect to the Franklin/Templeton Fund account(s) covered by this agreement. Each of us agrees to notify the Fund or Services immediately upon the death of any of the undersigned.

CORPORATE/PARTNERSHIP/TRUST/RETIREMENT ACCOUNTS: The Shareholder and each of us signing this agreement on behalf of the Shareholder represent and warrant to each Franklin/Templeton Fund and Services that the Shareholder has the authority to enter into this agreement and that each of us are duly authorized to execute this agreement on behalf of the Shareholder. The Shareholder agrees that its election of the telephone redemption privilege means that a Fund or Services may honor a telephone redemption request given by ANY officer/partner/member/administrator or agent of Shareholder ACTING ALONE.

RESTRICTED ACCOUNTS: Telephone redemptions and dividend option changes may not be accepted on Franklin Trust Company ("FTC") or Templeton Funds Trust Company ("TFTC") retirement accounts.

PLEASE RETURN THIS FORM TO:

Franklin/Templeton Investor Services, Inc., Attn: AUTOMATIC INVESTMENT PLAN
Dept., 777 Mariners Island Blvd., P.O. Box 7777, San Mateo, CA 94403-7777.

20.21/140 (06/94)

THE FRANKLIN/TEMPLETON GROUP

To receive a free brochure and prospectus, which contain more complete information, including charges and expenses on each of the funds listed below, call Franklin Fund Information, toll free, at 1-800/DIAL BEN (1-800/342-5236) or Templeton Sales Information at 1-800/292-9293. Please read this prospectus carefully before you invest or send money.

<TABLE>	<S>	<C>	<C>	<C>
TEMPLETON GROUP OF FUNDS	Colorado Connecticut Florida*	FRANKLIN FUNDS SEEKING GROWTH AND INCOME		FRANKLIN FUNDS FOR NON-U.S. INVESTORS
Americas Government Securities Fund	Georgia Hawaii**	Balance Sheet Investment Fund		Tax-Advantaged High Yield Securities Fund
Developing Markets Trust	Indiana Kentucky	Convertible Securities Fund		Tax-Advantaged International Bond Fund
Foreign Fund	Louisiana Maryland	Equity Income Fund		Tax-Advantaged U.S. Government Securities Fund
Global Infrastructure Fund	Massachusetts*** Michigan*** Minnesota***	Global Utilities Fund		
Global Opportunities Trust	Missouri New Jersey	Income Fund		FRANKLIN/TEMPLETON GLOBAL CURRENCY FUNDS
Global Rising Dividends Fund	New York* North Carolina Ohio***	Premier Return Fund		Global Currency Fund
Growth Fund	Oregon Pennsylvania	Rising Dividends Fund		High Income Currency Fund
Income Fund	Tennessee** Texas	Utilities Fund		
Real Estate Securities Fund	Virginia Washington**	FRANKLIN FUNDS SEEKING HIGH CURRENT INCOME		Hard Currency Fund
Smaller Companies Growth Fund	FRANKLIN FUNDS SEEKING CAPITAL GROWTH	AGE High Income Fund		FRANKLIN MONEY MARKET FUNDS
World Fund	California Growth Fund	German Government Bond Fund		Money Fund
FRANKLIN FUNDS SEEKING TAX-FREE INCOME	DynaTech Fund	Global Government Income Fund		Federal Money Fund
Federal Tax-Free Income Fund	Equity Fund	Investment Grade Income Fund		Tax-Exempt Money Fund
Federal Intermediate-Term Tax-Free Income Fund	Global Health Care Fund	Gold Fund		California Tax-Exempt Money Fund
		U.S. Government Securities Fund		New York Tax-Exempt Money Fund

High Yield Tax-Free Income Fund	Growth Fund	FRANKLIN FUNDS SEEKING HIGH CURRENT INCOME AND STABILITY OF PRINCIPAL	IFT U.S. Treasury Money Market Portfolio
Insured Tax-Free Income Fund***	International Equity Fund	Adjustable Rate Securities Fund	FRANKLIN FUND FOR CORPORATIONS
Puerto Rico Tax-Free Income Fund	Japan Fund	Adjustable U.S. Government Securities Fund	Corporate Qualified Dividend Fund
FRANKLIN STATE-SPECIFIC FUNDS SEEKING TAX-FREE INCOME	Pacific Growth Fund	Short-Intermediate U.S. Government Securities Fund	FRANKLIN TAX-DEFERRED ANNUITY
Alabama	Real Estate Securities Fund		Valuemark
Arizona*	Small Cap Growth Fund		
Arkansas**			
California*			
</TABLE>			

* Two or more fund options available: long-term portfolio, intermediate-term portfolio, a portfolio of insured municipal securities, and a high yield portfolio (CA).

** The fund may invest up to 100% of its assets in bonds that pay interest subject to the federal alternative minimum tax.

*** Portfolio of insured municipal securities.

FRANKLIN FEDERAL TAX-FREE INCOME FUND
777 Mariners Island Blvd.
P.O. Box 7777
San Mateo, California 94403-7777

FRANKLIN
FEDERAL
TAX-FREE
INCOME FUND

INVESTMENT MANAGER
Franklin Advisers, Inc.
777 Mariners Island Blvd.
P.O. Box 7777
San Mateo, California 94403-7777

PRINCIPAL UNDERWRITER
Franklin/Templeton Distributors, Inc.
777 Mariners Island Blvd.
P.O. Box 7777
San Mateo, California 94403-7777

PROSPECTUS
& APPLICATION

SEPTEMBER 1, 1994

SHAREHOLDER SERVICES AGENT
Franklin/Templeton Investor Services, Inc.
777 Mariners Island Blvd.
P.O. Box 7777
San Mateo, California 94403-7777

LEGAL COUNSEL
Stradley, Ronon, Stevens & Young
2600 One Commerce Square
Philadelphia, Pennsylvania 19103

INDEPENDENT AUDITORS
Coopers & Lybrand
333 Market Street
San Francisco, California 94105

CUSTODIAN
Bank of America NT & SA
555 California Street, 4th Floor
San Francisco, California 94104

For an enlarged version of this prospectus
please call 1-800/DIAL BEN.

Your Representative Is:

----- [FRANKLIN LOGO]

[RECYCLED LOGO]
Printed on recycled paper

16 P 09/94

1. The following substitutes the subsection "Purchases at Net Asset Value" under "Additional Information Regarding Fund Shares":

ADDITIONAL INFORMATION REGARDING PURCHASES

Special Net Asset Value Purchases. As discussed in the Prospectus under "How to Buy Shares of the Fund - Description of Special Net Asset Value Purchases," certain categories of investors may purchase shares of the Fund without a front-end sales charge ("net asset value") or a contingent deferred sales charge. Distributors or one of its affiliates may make payments, out of its own resources, to securities dealers who initiate and are responsible for such purchases, as indicated below. As a condition for these payments, Distributors or its affiliates may require reimbursement from the securities dealers with respect to certain redemptions made within 12 months of the calendar month following purchase, as well as other conditions, all of which may be imposed by an agreement between Distributors, or its affiliates, and the securities dealer.

The following amounts may be paid by Distributors or one of its affiliates, out of its own resources, to securities dealers who initiate and are responsible for (i) purchases of most equity and taxable income Franklin Templeton Funds made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers): 1.00% on sales of \$1 million but less than \$2 million, plus 0.80% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more; and (ii) purchases of most taxable income Franklin Templeton Funds made at net asset value by non-designated retirement plans: 0.75% on sales of \$1 million but less than \$2 million, plus 0.60% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more. These payment breakpoints are reset every 12 months for purposes of additional purchases. With respect to purchases made at net asset value by certain trust companies and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of \$10 million or more, Distributors, or one of its affiliates, out of its own resources, may pay up to 1% of the amount invested.

Letter of Intent. An investor may qualify for a reduced sales charge on the purchase of shares of the Fund, as described in the Prospectus. At any time within 90 days after the first investment which the investor wants to qualify for the reduced sales charge, a signed Shareholder Application, with the Letter of Intent section completed, may be filed with the Fund. After the Letter of Intent is filed, each additional investment will be entitled to the sales charge applicable to the level of investment indicated on the Letter. Sales charge reductions based upon purchases in more than one of the Franklin Templeton Funds will be effective only after notification to Distributors that the investment qualifies for a discount. The shareholder's holdings in the Franklin Templeton Funds acquired more than 90 days before the Letter of Intent is filed will be counted towards completion of the Letter of Intent but will not be entitled to a retroactive downward adjustment in the sales charge. Any redemptions made by the shareholder, other than by a designated benefit plan, during the 13-month period will be subtracted from the amount of the purchases for purposes of determining whether the terms of the Letter of Intent have been completed. If the Letter of Intent is not completed within the 13-month period, there will be an upward adjustment of the sales charge, depending upon the amount actually purchased (less redemptions) during the period. The upward adjustment does not apply to designated benefit plans. An investor who executes a Letter of Intent prior to a change in the sales charge structure for the Fund will be entitled to complete the Letter of Intent at the lower of (i) the new sales charge structure; or (ii) the sales charge structure in effect at the time the Letter of Intent was filed with the Fund.

As mentioned in the Prospectus, five percent (5%) of the amount of the total intended purchase will be reserved in shares of the Fund registered in the investor's name. If the total purchases, less redemptions, equal the amount specified under the Letter, the reserved shares will be deposited to an account in the name of the investor or delivered to the investor or the investor's order. If the total purchases, less redemptions, exceed the amount specified under the Letter of Intent and is an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made by Distributors and the securities dealer through whom purchases were made pursuant to the Letter of Intent (to reflect such further quantity discount) on purchases made within 90 days before and on those made after filing the Letter. The resulting difference in offering price will be applied to the purchase of additional shares at the offering price applicable to a single purchase or the dollar amount of the total purchases. If the total purchases, less redemptions, are less than the amount specified under the Letter, the

investor will remit to

Distributors an amount equal to the difference in the dollar amount of sales charge actually paid and the amount of sales charge which would have applied to the aggregate purchases if the total of such purchases had been made at a single time. Upon such remittance the reserved shares held for the investor's account will be deposited to an account in the name of the investor or delivered to the investor or to the investor's order. If within 20 days after written request such difference in sales charge is not paid, the redemption of an appropriate number of reserved shares to realize such difference will be made. In the event of a total redemption of the account prior to fulfillment of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption, and the balance will be forwarded to the investor.

2.The paragraph "Reinvestment Date" under "Additional Information Regarding Purchases and Redemptions of Fund Shares" is substituted with the following language:

REINVESTMENT DATE

Shares acquired through the reinvestment of dividends will be purchased at the net asset value determined on the business day following the dividend record date (sometimes known as "ex-dividend date"). The processing date for the reinvestment of dividends may vary from month to month, and does not affect the amount or value of the shares acquired.

FRANKLIN
FEDERAL TAX-FREE
INCOME FUND

[FRANKLIN LOGO]

STATEMENT OF
ADDITIONAL INFORMATION
SEPTEMBER 1, 1994
AS AMENDED DECEMBER 22, 1994

777 MARINERS ISLAND BLVD., P.O. BOX 7777
SAN MATEO, CA 94403-7777 1-800/DIAL BEN

FRANKLIN
FEDERAL TAX-FREE
INCOME FUND

[FRANKLIN LOGO]

STATEMENT OF
ADDITIONAL INFORMATION
SEPTEMBER 1, 1994
AS AMENDED DECEMBER 22, 1994

777 MARINERS ISLAND BLVD., P.O. BOX 7777
SAN MATEO, CA 94403-7777 1-800/DIAL BEN

Franklin Federal Tax-Free Income Fund (the "Fund") is a diversified, open-end management investment company which invests in municipal securities with the objective of providing as high a level of interest income exempt from federal income taxes as is consistent with prudent investing, while seeking preservation of shareholders' capital. Investments in municipal securities will be within the four highest ratings of either Moody's Investors Service ("Moody's"), Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch") or in unrated securities which, in the opinion of the Fund's investment manager, are of comparable quality to such four highest ratings. Normally, except for temporary defensive purposes, at least 80% of the Fund's assets will be invested in municipal securities.

A Prospectus for the Fund dated September 1, 1994, as may be amended from time to time, which provides the basic information a prospective investor should know before investing in the Fund, may be obtained without charge from the Fund or the Fund's principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors"), by mail at the above address or by calling the number shown above.

THIS STATEMENT OF ADDITIONAL INFORMATION (THE "SAI") IS NOT A PROSPECTUS. IT CONTAINS INFORMATION IN ADDITION TO AND IN MORE DETAIL THAN SET FORTH IN THE PROSPECTUS. THIS SAI IS INTENDED TO PROVIDE A PROSPECTIVE INVESTOR WITH ADDITIONAL INFORMATION REGARDING THE ACTIVITIES AND OPERATIONS OF THE FUND AND SHOULD BE READ IN CONJUNCTION WITH THE PROSPECTUS.

<TABLE>	
<CAPTION>	
CONTENTS	PAGE
<S>	<C>
The Fund's Investment Objective and Policies (See also the Prospectus "Investment Objective and Policies of the Fund").....	2

Officers and Directors.....	5
Investment Advisory and Other Services (See also the Prospectus "Management of the Fund").....	8
The Fund's Policies Regarding Brokers Used on Portfolio Transactions.....	9
Additional Information Regarding Purchases and Redemptions of Fund Shares (See also the Prospectus "How to Buy Shares of the Fund," "How to Sell Shares of the Fund," "Valuation of Fund Shares").....	10
The Fund's Underwriter.....	12
Additional Information Regarding Taxation (See also the Prospectus "Taxation of the Fund and Its Shareholders").....	13
General Information.....	14
Appendix.....	17
Financial Statements.....	20

</TABLE>

THE FUND'S INVESTMENT OBJECTIVE AND POLICIES

As noted in the Prospectus, the investment objective of the Fund is to provide as high a level of interest income to shareholders which is exempt from federal income tax as is consistent with prudent investing, while seeking preservation of shareholders' capital. (See "Investment Objective and Policies of the Fund" in the Prospectus).

MUNICIPAL SECURITIES

The Prospectus describes the general categories and nature of municipal securities. Discussed below are the major attributes of the various municipal and other securities in which the Fund may invest.

Tax Anticipation Notes are used to finance working capital needs of municipalities and are issued in anticipation of various seasonal tax revenues, which will be used to pay the notes. They are usually general obligations of the issuer, secured by the taxing power for the payment of principal and interest.

Revenue Anticipation Notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under the Federal Revenue Sharing Program. They are usually general obligations of the issuer.

Bond Anticipation Notes are normally issued to provide interim financing until long-term financing can be arranged. Long-term bonds then provide the money for the repayment of the notes.

Construction Loan Notes are sold to provide construction financing for specific projects. After successful completion and acceptance, many projects receive permanent financing through the Federal Housing Administration under the Federal National Mortgage Association or the Government National Mortgage Association.

Tax-Exempt Commercial Paper typically represents a short-term obligation (270 days or less) issued by a municipality to meet working capital needs.

Municipal Bonds, which meet longer-term capital needs and generally have maturities of more than one year when issued, have two principal classifications: general obligation bonds and revenue bonds.

1. General Obligation Bonds. Issuers of general obligation bonds include states, counties, cities, towns and regional districts. The proceeds of these obligations are used to fund a wide range of public projects, including construction or improvement of schools, highways and roads, and water and sewer systems. The basic security behind general obligation bonds is the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. The taxes that can be levied for the payment of debt service may be limited or unlimited as to the rate or amount of special assessments.

2. Revenue Bonds. A revenue bond is not secured by the full faith, credit and taxing power of an issuer. Rather, the principal security for a revenue bond is generally the net revenue derived from a particular facility, group of facilities or, in some cases, the proceeds of a special excise tax or other specific revenue source. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, water, and sewer systems; highways, bridges and tunnels; port and airport facilities; colleges and universities; and hospitals. The principal security behind these bonds may vary. Housing finance authorities have a wide range of security, including partially or fully insured mortgages, rent subsidized and/or collateralized mortgages, and/or the

net revenues from housing or other public projects. Many bonds provide additional security in the form of a debt service reserve fund, from which money may be used to make principal and interest payments on the issuer's obligations. Some authorities are provided with further security in the form of state assurance (although without obligation) to make up deficiencies in the debt service reserve fund.

Industrial Development Bonds are, in most cases, revenue bonds and are issued by or on behalf of public authorities to raise money for the financing of various privately operated facilities for business manufacturing, housing, sports, and pollution control. These bonds are also used to finance public facilities such as airports, mass transit systems, ports, and parking. The payment of the principal and interest on such bonds is solely dependent on the ability of the facilities user to meet its financial obligations and the pledge, if any, of the real and personal property so financed as security for such payment. The Fund will purchase Industrial Development Bonds only to the extent that the interest paid by a particular bond is tax-exempt pursuant to the Tax Reform Act of 1986, which limited the types of facilities that may be financed with tax-exempt industrial development and private activity bonds and the amounts of such bonds each state may issue.

Variable or Floating Rate Demand Notes ("VRDNs") are tax-exempt obligations which contain a floating or variable interest rate and a right of demand, which may be unconditional, to receive payment of the unpaid principal balance plus accrued interest upon a short notice period (generally up to 30 days) prior to specified dates, either from the issuer or by drawing on a bank letter of credit, a guarantee or insurance issued with respect to such instrument.

2

The interest rates are adjustable at intervals ranging from daily up to monthly, calculated to maintain the market value of the VRDN at approximately the par value of the VRDN upon the adjustment date. The adjustments are typically based upon the prime rate of a bank or some other appropriate interest rate adjustment index.

When-Issued Purchases. New issues of municipal securities are offered on a when-issued basis; that is, payment for and delivery of the securities (the "settlement date") normally takes place 15 to 45 days after the date that the offer is accepted. The purchase price and yield that will be received on the securities are fixed at the time the buyer enters into the commitment. While the Fund will always make commitments to purchase such securities with the intention of actually acquiring the securities, it may nevertheless sell these securities before the settlement date if it is deemed advisable as a matter of investment strategy. To the extent that assets of the Fund are held in cash pending the settlement of a purchase of securities, it would earn no income; however, it is the Fund's intention to be fully invested to the extent practicable and subject to the policies stated in the Prospectus. At the time the Fund makes the commitment to purchase a municipal bond on a when-issued basis, it will record the transaction and reflect the value of the security in determining its net asset value. The Fund does not believe that its net asset value or income will be adversely affected by the purchase of municipal bonds on a when-issued basis. The Fund will establish a segregated account in which it will maintain cash and marketable securities equal in value to commitments for when-issued securities.

Municipal securities may also be sold in "stripped" form. Stripped Municipal Securities represent separate ownership of interest and principal payments on municipal obligations.

Callable Bonds. In the early 1980s large numbers of municipal bonds were issued with provisions which prevented their being called, typically for periods of 5 to 10 years. During the coming years that protection will end on many issues. During times of generally declining interest rates, if the call-protection on callable bonds expires, there is an increased likelihood that a number of such bonds may, in fact, be called away by the issuers. Based on a number of factors, including certain portfolio management strategies used by the Fund's investment manager, the Fund believes it has reduced the risk of adverse impact on net asset value based on calls of callable bonds. The investment manager may dispose of such bonds in the years prior to their call date, if the investment manager believes such bonds are at their maximum premium potential. In pricing such bonds in the Fund's portfolio, each callable bond is marked to the market daily based on the bond's call date. Thus, the call of some or all of the Fund's callable bonds may have an impact on its net asset value. In light of the Fund's pricing policies and because the Fund follows certain amortization procedures required by the Internal Revenue Service, the Fund is not expected to suffer any material adverse impact related to the value at which the Fund has carried the bonds in connection with calls of bonds purchased at a premium. Notwithstanding such policies, however, the re-investment of the proceeds of any called bond may be in bonds which pay a higher or lower rate of return than the called bonds; and as with any investment strategy, there is no guarantee that a call may not have a more substantial impact than anticipated or that the Fund's objectives will be achieved.

Certificates of Participation. As stated in the prospectus, the Fund may also invest in municipal lease obligations primarily through Certificates of Participation ("COPs"). COPs are distinguishable from municipal debt in that the lease which is the subject of the transaction typically contains a "nonappropriation" or "abatement" clause. A nonappropriation clause provides that, while the municipality will use its best efforts to make lease payments, the municipality may terminate the lease without penalty if the municipality's appropriating body does not allocate the necessary funds.

While the risk of nonappropriation is inherent to COP financing, the Fund believes that this risk is mitigated by its policy of investing only in COPs rated within the four highest rating categories of Moody's, S&P, or Fitch, or in unrated COPs believed by the Fund's investment manager to be of comparable quality. Criteria considered by the rating agencies and the Fund's investment manager in assessing such risk include the issuing municipality's credit rating, the essentiality of the leased property to the municipality and the term of the lease compared to the useful life of the leased property. The Board of Directors has determined that COPs held in the Fund's portfolio constitute liquid investments based on various factors reviewed by the investment manager and monitored by the Board. Such factors include (a) the credit quality of such securities and the extent to which they are rated; (b) the size of the municipal securities market for the Fund, both in general and with respect to COPs; and (c) the extent to which the type of COPs held by the Fund trade on the same basis and with the same degree of dealer participation as other mu-

3

nicipal bonds of comparable credit rating or quality. There is no limit as to the amount of assets which the Fund may invest in COPs.

Escrow-Secured Bonds or Defeased Bonds are created when an issuer refunds in advance of maturity (or pre-refunds) an outstanding bond issue which is not immediately callable, and it becomes necessary or desirable to set aside funds for redemption of the bonds at a future date. In an advance refunding, the issuer will use the proceeds of a new bond issue to purchase high grade, interest bearing debt securities which are then deposited in an irrevocable escrow account held by a trustee bank to secure all future payments of principal and interest of the advance refunded bond. Escrow-secured bonds will often receive a triple-A rating from S&P and Moody's Investors Service ("Moody's").

U.S. Government Obligations which may be owned by the Fund are issued by the U.S. Treasury and include bills, certificates of indebtedness, notes and bonds, or are issued by agencies and instrumentalities of the U.S. government and backed by the full faith and credit of the U.S. government.

Commercial Paper refers to promissory notes issued by corporations in order to finance their short-term credit needs.

There may, of course, be other types of municipal securities that become available which are similar to the foregoing described municipal securities in which the Fund may also invest, to the extent such investments would be consistent with the foregoing objective and policies.

TIMING OF SECURITIES TRANSACTIONS

The Fund may purchase or sell securities without regard to the length of time the security has been held to take advantage of short-term differentials in bond yields consistent with its objective of seeking interest income while conserving capital. While short-term trading increases the portfolio turnover, the execution costs for municipal bonds are substantially less than those for equivalent dollar values of equity securities.

The Fund's portfolio turnover rates for the fiscal years ended April 30, 1993 and 1994 were approximately 13% and 25%, respectively.

INVESTMENT RESTRICTIONS AND POLICIES

Restrictions - The Fund has adopted the following additional restrictions as fundamental policies, which means that they may not be changed without the approval of a majority in interest of the Fund's shares. The Fund MAY NOT:

1. Borrow money or mortgage or pledge any of its assets, except that borrowings for temporary or emergency purposes may be made in an amount up to 5% of the total asset value.

2. Buy any securities on "margin" or sell any securities "short."

3. Lend any of its funds or other assets, except by the purchase of a portion of an issue of publicly distributed bonds, debentures, notes or other debt securities, or to the extent the entry into a repurchase agreement may be deemed a loan. Although such loans are not presently intended, this prohibition will not preclude the Fund from loaning securities to broker-dealers or other

institutional investors if at least 102% cash collateral is pledged and maintained by the borrower provided such security loans may not be made if, as a result, the aggregate of such loans exceeds 10% of the value of the Fund's total assets at the time of the most recent loan.

4. Act as underwriter of securities issued by other persons except insofar as the Fund may be technically deemed an underwriter under the federal securities laws in connection with the disposition of portfolio securities.

5. Purchase the securities of any issuer which would result in owning more than 10% of the voting securities of such issuer.

6. Purchase from or sell to its officers and directors, or any firm of which any officer or director is a member, as principal, any securities, but may deal with such persons or firms as brokers and pay a customary brokerage commission; retain securities of any issuer if, to the knowledge of the Fund, one or more of its officers, directors or investment adviser, own beneficially more than 1/2 of 1% of the securities of such issuer and all such officers and directors together own beneficially more than 5% of such securities.

7. Acquire, lease or hold real estate, except such as may be necessary or advisable for the maintenance of its offices.

8. Invest in commodities and commodity contracts, "puts," "calls," "straddles," "spreads" or any combination thereof, or interests in oil, gas or other mineral exploration or development programs. The Fund may, however, write covered call options listed for trading on a national securities exchange and purchase call options to the extent necessary to cancel call options previously written. At present there are no options listed for trading on a national securities exchange covering the types of securities which are appropriate for investment by the Fund and, therefore, there are no option transactions

4

available for the Fund. In addition, pursuant to the regulations under the Corporate Securities Laws of the State of California, the Fund would have to limit its writing of call options to 25% of its net assets, unless it received an exemption from the Commissioner of Corporations, should such option transactions become available.

9. Invest in companies for the purpose of exercising control or management.

10. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization; except to the extent the Fund invests its uninvested daily cash balances in shares of Franklin Tax-Exempt Money Fund and other tax-exempt money market funds in the Franklin Group of Funds provided i) its purchases and redemptions of such money market fund shares may not be subject to any purchase or redemption fees, ii) its investments may not be subject to duplication of management fees, nor to any charge related to the expense of distributing the Fund's shares (as determined under Rule 12b-1, as amended under the federal securities laws) and iii) provided aggregate investments by the Fund in any such money market fund do not exceed (A) the greater of (i) 5% of the Fund's total net assets or (ii) \$2.5 million, or (B) more than 3% of the outstanding shares of any such money market fund.

11. Invest more than 25% of assets in securities of any industry. For purposes of this limitation, tax-exempt securities issued by governments or political subdivisions of governments are not considered to be part of any industry.

In order to change any of the foregoing restrictions, or any other fundamental policies listed in the Prospectus, approval must be obtained from the Fund's shareholders. Such approval requires the affirmative vote of the lesser of (i) 67% or more of the Fund's voting securities present at a meeting if the holders of more than 50% of the Fund's voting securities are represented at that meeting or (ii) more than 50% of the Fund's outstanding voting securities.

It is not the Fund's policy to invest in real estate limited partnerships or in interests (other than publicly traded equity securities) in oil, gas, or other mineral leases, exploration or development.

OFFICERS AND DIRECTORS

The Board of Directors has the responsibility for the overall management of the Fund, including general supervision and review of its investment activities. The directors, in turn, elect the officers of the Fund who are responsible for administering the day-to-day operations of the Fund. The affiliations of the officers and directors and their principal occupations for the past five years are listed below. Directors who are deemed to be "interested persons" of the Fund as defined in the Investment Company Act of 1940, are indicated by an asterisk (*).

<TABLE>
<CAPTION>

Name and Address	Positions and Offices with the Fund	Principal Occupations During Past Five Years
<S> Frank H. Abbott, III 1045 Sansome St. San Francisco, CA 94111	<C> Director	<C> President and Director, Abbott Corporation (an investment company); Director, Mother Lode Gold Mines Consolidated; and director, trustee or managing general partner, as the case may be, of most of the investment companies in the Franklin Group of Funds.
Harris J. Ashton General Host Corporation Metro Center, 1 Station Place Stamford, CT 06904-2045	Director	President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers); Director, RBC Holdings, Inc. (a bank holding company) and Bar-S Foods; director of certain of the investment companies in the Templeton Group of Funds; and director, trustee or managing general partner, as the case may be, of most of the investment companies in the Franklin Group of Funds.

</TABLE>

5

Name and Address	Positions and Offices with the Fund	Principal Occupations During Past Five Years
<S> S. Joseph Fortunato Park Avenue at Morris County P.O. Box 1945 Morristown, NJ 07962-1945	<C> Director	<C> Member of the law firm of Pitney, Hardin, Kipp & Szuch; Director of General Host Corporation; director of certain of the investment companies in the Templeton Group of Funds; companies in the Templeton Group of Funds; and director, trustee or managing general partner, as the case may be, of most of the investment companies in the Franklin Group of Funds.
David W. Garbellano 111 New Montgomery Street, #402 San Francisco, CA 94105	Director	Private Investor; Assistant Secretary/Treasurer and Director, Berkeley Science Corporation (a venture capital company); and director, trustee or managing general partner, as the case may be, of most of the investment companies in the Franklin Group of Funds.
* Charles B. Johnson 777 Mariners Island Blvd. San Mateo, CA 94404	President and Director	President and Director, Franklin Resources, Inc.; Chairman of the Board and Director, Franklin Advisers, Inc. and Franklin/Templeton Distributors, Inc.; Director, Franklin/Templeton Investor Services, Inc. and General Host Corporation; director of certain of the investment companies in the Templeton Group of Funds; and officer and/or director, trustee or managing general partner, as the case may be, of most other subsidiaries of Franklin Resources, Inc. and of most of the investment companies in the Franklin Group of Funds.
* Rupert H. Johnson, Jr. 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Director	Executive Vice President and Director, Franklin Resources, Inc. and Franklin/Templeton Distributors, Inc.; President and Director, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; director of certain of the investment companies in the Templeton Group of Funds; and officer and/or director, trustee or managing general partner, as the case may be, of most other subsidiaries of Franklin Resources, Inc. and of most of the investment companies in the Franklin Group of Funds.
Frank W. T. LaHaye 20833 Stevens Creek Blvd. Suite 102 Cupertino, CA 95014	Director	General Partner, Peregrine Associates and Miller & LaHaye, which are General Partners of Peregrine Ventures and Peregrine Ventures II (venture capital firms); Chairman of the Board and Director, Quarterdeck Office Systems, Inc.; Director, FischerImaging Corporation; and director or trustee, as the case may be, of most of the investment companies in the Franklin Group of Funds.

</TABLE>

6

Name and Address	Positions and Offices with the Fund	Principal Occupations During Past Five Years
<S>	<C>	<C>
Gordon S. Macklin 8212 Burning Tree Road Bethesda, MD 20817	Director	Chairman, White River Corporation (information services); Director, Fundamerica Enterprises Holdings, Inc., Martin Marietta Corporation, MCI Communications Corporation, Medimmune, Inc. (biotechnology) and Infovest Corporation (information services); director of certain of the investment companies in the Templeton Group of Funds; and director, trustee or managing general partner, as the case may be, of most of the investment companies in the Franklin Group of Funds; formerly, Chairman, Hambrecht and Quist Group; Director, H & Q Healthcare Investors; and President, National Association of Securities

Dealers, Inc.

* Harmon E. Burns 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Director	Executive Vice President, Secretary and Director, Franklin Resources, Inc.; Executive Vice President and Director, Franklin/Templeton Distributors, Inc.; Executive Vice President, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; director of certain of the investment companies in the Templeton Group of Funds; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or director or trustee of all the investment companies in the Franklin Group of Funds.
Kenneth V. Domingues 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Treasurer	Senior Vice President, Franklin Resources, Inc., Franklin Advisers, Inc. and Franklin/Templeton Distributors, Inc.; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or managing general partner, as the case may be, of all the investment companies in the Franklin Group of Funds.
Thomas J. Kenny 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Senior Vice President, Franklin Advisers, Inc. and officer of some of the investment companies in the Franklin Group of Funds.
Edward V. McVey 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Senior Vice President/National Sales Manager, Franklin/Templeton Distributors, Inc.; and officer of many of the investment companies in the Franklin Group of Funds.
R. Martin Wiskemann 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President	Senior Vice President, Portfolio Manager and Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Management, Inc.; Vice President, Treasurer and Director, ILA Financial Services, Inc. and Arizona Life Insurance Company of America; and officer and/or director, as the case may be, of many of the investment companies in the Franklin Group of Funds.

</TABLE>

7

<TABLE>

<CAPTION>

Name and Address	Positions and Offices with the Fund	Principal Occupations During Past Five Years
<S> Andrew Jennings, Sr. 777 Mariners Island Blvd. San Mateo, CA 94404	<C> Vice President	<C> Vice President, Franklin Advisers, Inc.; employee of Franklin Resources, Inc. and its subsidiaries in a portfolio management capacity since 1990; from 1985 to 1990, first vice president and manager of the municipal institutional bond department at Dean Witter Reynolds, Inc.
Deborah R. Gatzek 777 Mariners Island Blvd. San Mateo, CA 94404	Vice President and Secretary	Senior Vice President - Legal, Franklin Resources, Inc. and Franklin/Templeton Distributors, Inc.; Vice President, Franklin Advisers, Inc.; and officer of all the investment companies in the Franklin Group of Funds.

</TABLE>

As indicated above, certain of the directors and officers hold positions with other companies in the Franklin Group of Funds(R) and the Templeton Group of Funds. Directors not affiliated with the investment manager are currently paid fees of \$950.00 per month plus \$950.00 per meeting attended and are reimbursed for expenses incurred in connection with attending such meetings. During the fiscal year ended April 30, 1994, fees and expenses totaling \$156,474 were paid to directors of the Fund who are not affiliated with the investment manager. No officer or director received any other compensation directly from the Fund. As of June 7, 1994, the directors and officers, as a group, owned of record and beneficially less than 1% of the total outstanding shares of the Fund. Certain officers or directors who are shareholders of Franklin Resources, Inc. may be deemed to receive indirect remuneration by virtue of their participation, if any, in the fees paid to its subsidiaries. Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

From time to time, the number of Fund shares held in the "street name" accounts of various securities dealers for the benefit of their clients or in centralized securities depositories may exceed 5% of the total shares outstanding. To the best knowledge of the Fund, no other person holds beneficially or of record more than 5% of the Fund's outstanding shares.

INVESTMENT ADVISORY AND OTHER SERVICES

The investment manager of the Fund is Franklin Advisers, Inc. ("Advisers" or "Manager"). Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly owned holding company whose shares are listed on the New York Stock Exchange ("Exchange"). Resources owns several other subsidiaries

which are involved in investment management and shareholder services. The Manager and other subsidiary companies of Resources currently manage over \$112 billion in assets for over 3.5 million shareholders. The preceding table indicates those officers and directors who are also affiliated persons of Distributors and Advisers.

Pursuant to the management agreement, the Manager provides investment research and portfolio management services, including the selection of securities for the Fund to purchase, hold or sell and the selection of brokers through whom the Fund's portfolio transactions are executed. The Manager's extensive research activities include, as appropriate, traveling to meet with issuers and to review project sites. The Manager's activities are subject to the review and supervision of the Fund's Board of Directors to whom the Manager renders periodic reports of the Fund's investment activities. The Manager, at its own expense, furnishes the Fund with office space and office furnishings, facilities and equipment required for managing the business affairs of the Fund; maintains all internal bookkeeping, clerical, secretarial and administrative personnel and services; and provides certain telephone and other mechanical services. The Manager is covered by fidelity insurance on its officers, directors and employees for the protection of the Fund. The Fund bears all of its expenses not assumed by the Manager.

See the Statement of Operations in the financial statements at the end of this SAI for additional details of these expenses.

Pursuant to the management agreement, the Fund is obligated to pay the Manager a fee computed at the close of business on the last business day of each month equal to a monthly rate of 5/96 of 1% (approximately 5/8 of 1% per year) for the first \$100 million of net assets of the Fund; 1/24 of 1% (approximately 1/2 of 1% per year) on net assets of the

8

Fund in excess of \$100 million up to \$250 million; 9/240 of 1% (approximately 45/100 of 1% per year) of net assets of the Fund in excess of \$250 million up to \$10 billion; 11/300 of 1% (approximately 44/100 of 1% per year) of net assets of the Fund in excess of \$10 billion up to \$12.5 billion; 7/200 of 1% (approximately 42/100 of 1% per year) of net assets of the Fund in excess of \$12.5 billion up to \$15 billion; 1/30 of 1% (approximately 40/100 of 1% per year) of net assets of the Fund in excess of \$15 billion up to \$17.5 billion; 19/600 of 1% (approximately 38/100 of 1% per year) of net assets of the Fund in excess of \$17.5 billion up to \$20 billion; and 3/100 of 1% (approximately 36/100 of 1% per year) of net assets of the Fund in excess of \$20 billion.

Management fees for the fiscal years ended April 30, 1992, 1993 and 1994 were \$21,975,055, \$26,619,057, and \$31,132,949, respectively.

The management agreement specifies that the management fee will be reduced to the extent necessary to comply with the most stringent limits on the expenses which may be borne by the Fund as prescribed by any state in which the Fund's shares are offered for sale. The most stringent current limit requires the Manager to reduce or eliminate its fee to the extent that aggregate operating expenses of the Fund (excluding interest, taxes, brokerage commissions and extraordinary expenses such as litigation costs) would otherwise exceed in any fiscal year 2 1/2% of the first \$30 million of average net assets of the Fund, 2% of the next \$70 million of average net assets of the Fund and 1 1/2% of average net assets of the Fund in excess of \$100 million. Expense reductions have not been necessary based on state requirements.

The management agreement is in effect until April 30, 1995. Thereafter, it may continue in effect for successive annual periods providing such continuance is specifically approved at least annually by a vote of the Fund's Board of Directors or by a vote of the holders of a majority of the Fund's outstanding voting securities, and in either event by a majority vote of the Fund's directors who are not parties to the management agreement or interested persons of any such party (other than as directors of the Fund), cast in person at a meeting called for that purpose. The management agreement may be terminated without penalty at any time by the Fund or by the Manager on 30 days' written notice and will automatically terminate in the event of its assignment, as defined in the Investment Company Act of 1940 Act.

Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent"), a wholly-owned subsidiary of Resources, is the shareholder servicing agent for the Fund and acts as the Fund's transfer agent and dividend-paying agent. Investor Services is compensated on the basis of a fixed fee per account.

Bank of America NT & SA, 555 California Street, 4th Floor, San Francisco, California 94104, acts as custodian of the securities and other assets of the Fund. Citibank Delaware, One Penn's Way, New Castle, Delaware 19720, acts as custodian in connection with transfer services through bank automated clearing houses. The custodians do not participate in decisions relating to the purchase and sale of portfolio securities.

Coopers & Lybrand, 333 Market Street, San Francisco, California 94105, are the Fund's independent auditors. During the fiscal year ended April 30, 1994, their auditing services consisted of rendering an opinion on the financial statements of the Fund included in the Fund's Annual Report and this SAI.

THE FUND'S POLICIES REGARDING BROKERS USED ON PORTFOLIO TRANSACTIONS

Since most purchases made by the Fund are principal transactions at net prices, the Fund incurs little or no brokerage costs. The Fund deals directly with the selling or purchasing principal or market maker without incurring charges for the services of a broker on its behalf unless it is determined that a better price or execution may be obtained by utilizing the services of a broker. Purchases of portfolio securities from underwriters include a commission or concession paid by the issuer to the underwriter, and purchases from dealers include a spread between the bid and ask price. As a general rule, the Fund does not purchase bonds in underwritings where it is not given any choice, or only limited choice, in the designation of dealers to receive the commission. The Fund seeks to obtain prompt execution of orders at the most favorable net price. Transactions may be directed to dealers in return for research and statistical information, as well as for special services rendered by such dealers in the execution of orders. It is not possible to place a dollar value on the special executions or on the research services received by Advisers from dealers effecting transactions in portfolio securities. The allocations of transactions in order to obtain additional research services permits Advisers to supplement its own re-

9

search and analysis activities and to receive the views and information of individuals and research staff of other securities firms which the Manager or its affiliates may lawfully and appropriately use in their investment advisory capacities with other clients. Provided that the best execution is obtained, the sale of Fund shares may also be considered as a factor in the selection of broker-dealers to execute the Fund's portfolio transactions.

If purchases or sales of securities of the Fund and one or more other investment companies or clients supervised by the Manager are considered at or about the same time, transactions in such securities will be allocated among the several investment companies and clients in a manner deemed equitable to all by the Manager, taking into account the respective sizes of the funds and the amount of securities to be purchased or sold. It is recognized that in some cases this procedure could possibly have a detrimental effect on the price or volume of the security so far as the Fund is concerned. In other cases it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Fund.

During the past three fiscal years ended April 30, the Fund paid no brokerage commissions. As of April 30, 1994, the Fund did not own any securities of its regular broker-dealers.

ADDITIONAL INFORMATION REGARDING PURCHASES AND REDEMPTIONS OF FUND SHARES

All checks, drafts, wires and other payment mediums used for purchasing or redeeming shares of the Fund must be denominated in U.S. dollars. The Fund reserves the right, in its sole discretion, to either (a) reject any order for the purchase or sale of shares denominated in any other currency, or (b) honor the transaction or make adjustments to a shareholder's account for the transaction as of a date and with a foreign currency exchange factor determined by the drawee bank.

In connection with exchanges (see Prospectus "Exchange Privilege"), it should be noted that since the proceeds from the sale of shares of an investment company generally are not available until the fifth business day following the redemption, the fund into which the Fund's shareholders are seeking to exchange reserve the right to delay issuing shares pursuant to an exchange until said fifth business day. The redemption of shares of the Fund to complete an exchange for shares of any of the investment companies will be effected at the close of business on the day the request for exchange is received in proper form at the net asset value then effective.

Dividend checks which are returned to the Fund marked "unable to forward" by the postal service will be deemed to be a request by the shareholder to change the dividend option and the proceeds will be reinvested in additional shares at net asset value until new instructions are received.

The Fund may deduct from a shareholder's account the costs of its efforts to locate a shareholder if mail is returned as undeliverable or the Fund is otherwise unable to locate the shareholder or verify the current mailing address. These costs may include a percentage of the account when a search company charges a percentage fee in exchange for their location services.

Under agreements with certain banks in Taiwan, Republic of China, the Fund's shares are available to such banks' discretionary trust funds at net asset

value. The banks may charge service fees to their customers who participate in the discretionary trusts. Pursuant to agreements, a portion of such service fees may be paid to Distributors, or an affiliate of Distributors, to help defray expenses of maintaining a service office in Taiwan, including expenses related to local literature fulfillment and communication facilities.

Shares of the Fund may be offered to investors in Taiwan through securities firms known locally as Securities Investment Consulting Enterprises. In conformity with local business practices in Taiwan, shares of the Fund will be offered with the following schedule of sales charges:

<TABLE>

<CAPTION>

SIZE OF PURCHASE IN U.S. DOLLARS -----	SALES CHARGE -----
<S>	<C>
Up to \$100,000.....	3%
\$100,000 to \$1,000,000.....	2%
Over \$1,000,000.....	1%

</TABLE>

PURCHASES AND REDEMPTIONS THROUGH SECURITIES DEALERS

Orders for the purchase of shares of the Fund received in proper form prior to 1:00 p.m. Pacific time any business day that the Exchange is open for trading and promptly transmitted to the Fund will be based upon the public offering price determined that day. Purchase orders received by securities dealers or other financial institutions after 1:00 p.m. Pacific time will be effected at the Fund's public offering price on the day it is next calculated. The use of the term "securities dealer" herein shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through af-

10

filiates), handle customer orders and accounts with the Fund. Such reference, however, is for convenience only and does not indicate a legal conclusion of capacity.

Orders for the redemption of shares are effected at net asset value subject to the same conditions concerning time of receipt in proper form. It is the securities dealer's responsibility to transmit the order in a timely fashion and any loss to the customer resulting from failure to do so must be settled between the customer and the securities dealer.

PURCHASES AT NET ASSET VALUE

As discussed in the Prospectus, certain categories of investors may purchase shares of the Fund at net asset value (without a sales charge) or at a reduced sales charge. The reason for this is that there is minimal or no sales effort required with respect to these investors. If certain investments at net asset value are made through a dealer who has executed a dealer or similar agreement with Distributors, Distributors or its affiliates may make a payment, out of their own resources, to such dealer in an amount not to exceed 0.25% of the amount invested, paid pro rata on a quarterly basis on average quarterly balances for a period of one year.

REDEMPTIONS IN KIND

The Fund has committed itself to pay in cash (by check) all requests for redemption by any shareholder of record, limited in amount, however, during any 90-day period to the lesser of \$250,000 or 1% of the value of the Fund's net assets at the beginning of such period. Such commitment is irrevocable without the prior approval of the Securities and Exchange Commission. In the case of requests for redemption in excess of such amounts, the directors reserve the right to make payments in whole or in part in securities or other assets of the Fund from which the shareholder is redeeming in case of an emergency, or if the payment of such a redemption in cash would be detrimental to the existing shareholders of the Fund. In such circumstances, the securities distributed would be valued at the price used to compute the Fund's net assets. Should the Fund do so, a shareholder may incur brokerage fees in converting the securities to cash. The Fund does not intend to redeem illiquid securities in kind; however, should it happen, shareholders may not be able to timely recover their investment and may also incur brokerage costs in selling such securities.

REDEMPTIONS BY THE FUND

Due to the relatively high cost of handling small investments, the Fund reserves the right to redeem, involuntarily, at net asset value, the shares of any shareholder whose account has a value of less than one-half of the initial minimum investment required for that shareholder, but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares. Until further notice, it is the present policy of the Fund not to exercise this right with respect to any shareholder whose account has a value

of \$50 or more. In any event, before the Fund redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares in the account is less than the minimum amount and allow the shareholder 30 days to make an additional investment in an amount which will increase the value of the account to at least \$100.

CALCULATION OF NET ASSET VALUE

As noted in the Prospectus, the Fund generally calculates net asset value as of 1:00 p.m. Pacific time each day that the Exchange is open for trading. As of the date of this SAI, the Fund is informed that the Exchange observes the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The Fund's portfolio securities are valued as stated in the Prospectus. Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times prior to the close of the Exchange. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Occasionally, events affecting the values of such securities may occur between which will not be reflected in the computation of the Fund's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Board of Directors.

REINVESTMENT DATE

The dividend reinvestment date is the date on which additional shares are purchased for the investor who has elected to have dividends reinvested. This date will vary from month to month, based on operational considerations, and is not necessarily the same date as the record date or the payable date for cash dividends.

SPECIAL SERVICES

The Trust and Institutional Services Division of Distributors provides specialized services, including

11

recordkeeping for institutional investors of the Fund. The cost of these services is not borne by the Fund.

Investor Services may pay certain financial institutions, which maintain omnibus accounts with the Fund on behalf of numerous beneficial owners, for recordkeeping, operations performed with respect to such beneficial owners. For each beneficial owner in the omnibus account, the Fund may reimburse Investor Services an amount not to exceed the per account fee which the Fund normally pays Investor Services. Such financial institutions may also charge a fee for their services directly to their clients.

THE FUND'S UNDERWRITER

Pursuant to an underwriting agreement in effect until April 30, 1995, Distributors acts as principal underwriter in a continuous public offering for shares of the Fund.

Distributors pays the expenses of distribution of Fund shares, including advertising expenses and the costs of printing sales material and prospectuses used to offer shares to the public. The Fund pays the expenses of preparing and printing amendments to its registration statements and prospectuses (other than those necessitated by the activities of Distributors) and of sending prospectuses to existing shareholders.

The underwriting agreement will continue in effect for successive annual periods provided that its continuance is specifically approved at least annually by a vote of the Fund's Board of Directors, or by a vote of the holders of a majority of the Fund's outstanding voting securities, and in either event by a majority vote of the Fund's directors who are not parties to the underwriting agreement or interested persons of any such party (other than as directors of the Fund), cast in person at a meeting called for that purpose. The underwriting agreement terminates automatically in the event of its assignment and may be terminated by either party on 90 days' written notice.

Until April 30, 1994, income dividends were reinvested at the offering price (which includes the sales charge) and Distributors allowed 50% of the entire commission to the securities dealer of record, if any, on an account. Starting with any income dividends paid after April 30, 1994, such reinvestment will be at net asset value.

In connection with the offering of the Fund's shares, aggregate underwriting commissions for the fiscal years ended April 30, 1992, 1993 and 1994 were \$34,937,882; \$41,936,626; and \$37,920,217; respectively. After allowances to

dealers, Distributors retained \$1,928,345; \$2,265,550; and \$2,518,222; for the respective periods. Distributors received no other compensation from the Fund for acting as underwriter.

PLAN OF DISTRIBUTION

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the 1940 Act (the "Plan") whereby the Fund may pay up to a maximum of 0.10% per annum of its average daily net assets for expenses incurred in the promotion and distribution of its shares.

Pursuant to the Plan, Distributors or others will be entitled to be reimbursed each quarter (up to the maximum as stated above) for actual expenses incurred in the distribution and promotion of the Fund's shares, including, but not limited to, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of Distributors' overhead expenses attributable to the distribution of Fund shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund, Distributors or its affiliates.

In addition to the payments to which Distributors or others are entitled under the Plan, the Plan also provides that to the extent the Fund, the Manager or Distributors or other parties on behalf of the Fund, the Manager or Distributors, make payments that are deemed to be payments for the financing of any activity primarily intended to result in the sale of shares of the Fund within the context of Rule 12b-1 under the 1940 Act, then such payments shall be deemed to have been made pursuant to the Plan.

In no event shall the aggregate asset-based sales charges which include payments made under the Plan, plus any other payments deemed to be made pursuant to the Plan, exceed the amount permitted to be paid pursuant to the Rules of Fair Practice of the National Association of Securities Dealers, Inc., Article III, Section 26(d)4.

The terms and provisions of the Plan relating to required reports, term, and approval are consistent with Rule 12b-1. The Plan does not permit unreimbursed expenses incurred in a particular year to be carried over to or reimbursed in subsequent years.

To the extent fees are for distribution or marketing functions, as distinguished from administrative servicing or agency transactions, certain banks will not be entitled to participate in the Plan as a result of

12

applicable federal law prohibiting certain banks from engaging in the distribution of mutual fund shares. Such banking institutions, however, are permitted to receive fees under the Plan for administrative servicing or for agency transactions. If a bank were prohibited from providing such services, its customers who are shareholders would be permitted to remain shareholders of the Fund, and alternate means for continuing the servicing of such shareholders would be sought. In such an event, changes in the services provided might occur and such shareholders might no longer be able to avail themselves of any automatic investment or other services then being provided by the bank. It is not expected that shareholders would suffer any adverse financial consequences as a result of any of these changes. Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law expressed herein, and banks and financial institutions selling shares of the Fund may be required to register as dealers pursuant to state law.

The Plan has been approved by the directors of the Fund, including those directors who are not interested persons, as defined in the 1940 Act. The Plan is effective through April 30, 1995 and renewable annually by a vote of the Fund's Board of Directors, including a majority vote of the directors who are non-interested persons of the Fund and who have no direct or indirect financial interest in the operation of the Plan, cast in person at a meeting called for that purpose. It is also required that the selection and nomination of such directors be done by the non-interested directors. The Plan and any related agreement may be terminated at any time, without any penalty, by 60 days' written notice, by Distributors on not more than 60 days' written notice, by any act that constitutes an assignment of the Management Agreement with the Manager, or by vote of a majority of the Fund's outstanding shares. Distributors or any dealer or other firm may also terminate their respective distribution or service agreement at any time upon written notice.

The Plan and any related agreements may not be amended to increase materially the amount to be spent for distribution expenses without approval by a majority of the Fund's outstanding shares, and all material amendments to the Plan or any related agreements shall be approved by a vote of the non-interested directors, cast in person at a meeting called for the purpose of voting in any

such amendment.

Distributors is required to report in writing to the Board of Directors at least quarterly on the amounts and purpose of any payment made under the Plan and any related agreements, as well as to furnish the Board of Directors with such other information as may reasonably be requested in order to enable the Board of Directors to make an informed determination of whether the Plan should be continued.

ADDITIONAL INFORMATION REGARDING TAXATION

As stated in the Prospectus, the Fund has elected to be treated as a regulated investment company under Subchapter M of the Code. The Directors reserve the right not to maintain the qualification of the Fund as a regulated investment company if they determine such course of action to be beneficial to the shareholders. In such case, the Fund will be subject to federal and possibly state corporate taxes on its taxable income and gains, to the alternative minimum tax on a portion of its tax-exempt income, and distributions (including tax-exempt interest dividends) to shareholders will be taxable to the extent of the Fund's available earnings and profits.

The Code requires all funds to distribute at least 98% of their taxable ordinary income earned during the calendar year and at least 98% of their capital gain net income earned during the twelve month period ending October 31 of each year (in addition to amounts from the prior year that were neither distributed nor taxed to the Fund) to shareholders by December 31 of each year in order to avoid the imposition of a federal excise tax. Under these rules, certain distributions which are declared in October, November or December but which, for operational reasons, may not be paid to the shareholder until the following January, will be treated for tax purposes as if paid by the Fund and received by the shareholder on December 31 of the calendar year in which they are declared. The Fund intends as a matter of policy to declare and pay such dividends, if any, in December to avoid the imposition of this tax, but does not guarantee that its distributions will be sufficient to avoid any or all federal excise taxes.

Redemptions and exchanges of Fund shares are taxable transactions for federal and state income tax purposes. For most shareholders, gain or loss will be recognized in an amount equal to the difference between the shareholder's basis in the shares and the amount received, subject to the rules described below. If such shares are a capital asset in the hands of the shareholder, gain or loss will be capital gain or loss and will be long-term for federal income tax purposes if the shares have been held for more than one year.

13

All or a portion of a loss realized upon a redemption of shares will be disallowed to the extent other shares of the Fund are purchased (through reinvestment of dividends or otherwise) within 30 days before or after such redemption. Any loss disallowed under these rules will be added to the tax basis of the shares purchased.

Many states grant tax-free status to dividends paid to shareholders of mutual funds from interest income earned by the Fund from direct obligations of the U.S. Government, subject in some states to minimum investment requirements that must be met by the Fund. Investments in GNMA/FNMA securities and repurchase agreements collateralized by U.S. Government securities do not generally qualify for tax-free treatment. While it is not the primary investment objective of this Fund to invest in such obligations, the Fund is authorized to so invest for temporary or defensive purposes. To the extent that such investments are made, the Fund will provide shareholders with the percentage of any dividends paid which may qualify for such tax-free treatment at the end of each calendar year. Shareholders should then consult with their own tax advisors with respect to the application of their state and local laws to these distributions and on the application of other state and local laws on distributions and redemption proceeds received from the Fund.

Persons who are defined in the Code as "substantial users" (or related persons) of facilities financed by private activity bonds should consult with their tax advisors before purchasing shares of the Fund.

GENERAL INFORMATION

PERFORMANCE

As noted in the Prospectus, the Fund may from time to time quote various performance figures to illustrate the Fund's past performance. It may occasionally cite statistics to reflect its volatility or risk.

Performance quotations by investment companies are subject to rules adopted by the SEC. These rules require the use of standardized performance quotations or, alternatively, that every non-standardized performance quotation furnished by the Fund be accompanied by certain standardized performance information

computed as required by the SEC. Current yield and average annual compounded total return quotations used by the Fund are based on the standardized methods of computing performance mandated by the SEC. An explanation of those and other methods used by the Fund to compute or express performance follows.

TOTAL RETURN

The average annual total return is determined by finding the average annual compounded rates of return over one-, five- and ten-year periods that would equate an initial hypothetical \$1,000 investment to its ending redeemable value. The calculation assumes the maximum sales charge is deducted from the initial \$1,000 purchase order, and that income dividends and capital gains are reinvested at net asset value on the reinvestment dates during the period. The quotation assumes the account was completely redeemed at the end of each one-, five- and ten-year period, and the deduction of all applicable charges and fees. If a change is made on the sales charge structure, historical performance information will be restated to reflect the maximum sales charge in effect currently.

In considering the quotations of total return by the Fund, investors should remember that the maximum sales charge reflected in each quotation is a one-time fee (charged on all direct purchases) which will have its greatest impact during the early stages of an investor's investment in the Fund. The actual performance of an investment will be affected less by this charge the longer an investor retains the investment in the Fund. The average annual compounded rates of return for the Fund for the indicated periods ended on the date of the financial statements included herein was as follows:

<TABLE>
<CAPTION>

ONE-YEAR PERIOD	FIVE-YEAR PERIOD	TEN-YEAR PERIOD
<S>	<C>	<C>
-1.50%	7.34%	9.66%

</TABLE>

These figures were calculated according to the SEC formula:

$$P(1+T)^n = ERV$$

where:

P = a hypothetical initial payment of \$1,000

T = average annual total return

n = number of years

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the one-, five-, or ten-year periods at the end of the one-, five-, or ten-year periods.

As discussed in the Prospectus, the Fund may quote total rates of return in addition to its average annual total return. Such quotations are computed in the same manner as the Fund's average annual compounded rate, except that such quotations will be based on the Fund's actual return for a specified period rather than on its average return over one-, five- and ten-year periods. The total rates of return for the Fund for the indicated periods ended on the

date of the financial statements included herein was as follows:

<TABLE>
<CAPTION>

ONE-YEAR PERIOD	FIVE-YEAR PERIOD	TEN-YEAR PERIOD
<S>	<C>	<C>
-1.50%	42.52%	151.48%

</TABLE>

YIELD

Current yield reflects the income per share earned by the Fund's portfolio investments.

Current yield is determined by dividing the net investment income per share earned during a 30-day base period by the maximum offering price per share on the last day of the period and annualizing the result. Expenses accrued for the period include any fees charged to all shareholders during the base period. The yield for the Fund for the 30-day period ended on the date of the financial

statements included herein was as follows:

30-DAY PERIOD

5.45%

This figure was obtained using the SEC formula:

$$\text{Yield} = 2 \left[\frac{(a-b + 1)6 - 1}{cd} \right]$$

where:

a = interest earned during the period

b = expenses accrued for the period (net of reimbursement)

c = the average daily number of shares outstanding during the period that were entitled to receive dividends.

d = the maximum offering price per share on the last day of the period.

TAX EQUIVALENT YIELD

The Fund may also quote a tax equivalent yield which demonstrates the taxable yield necessary to produce an after-tax yield equivalent to that of a fund which invests in tax-exempt obligations. Such yield is computed by dividing that portion of the yield of the Fund (computed as indicated above) which is tax-exempt by one minus the highest applicable federal income tax rate (and adding the product to that portion of the yield of the Fund that is not tax-exempt, if any). The tax equivalent yield for the Fund for the 30-day period ended on the date of the financial statements included herein was as follows:

30-DAY PERIOD

9.02%

As of the date of this SAI, the federal income tax rate upon which the Fund's tax equivalent yield quotation is based was 39.6%. From time to time, as any changes to such rates become effective, tax equivalent yield quotations advertised by the Fund will be updated to reflect such changes. The Fund expects updates may be necessary as tax rates are changed by federal, state and local government. The advantage of tax-free investments, such as the Fund, will be enhanced by any tax rate increases. Therefore, the details of specific tax increases may be used in sales material for the Fund.

CURRENT DISTRIBUTION RATE

Current yield and tax equivalent yield which are calculated according to a formula prescribed by the SEC are not indicative of the amounts which were or will be paid to the Fund's shareholders. Amounts paid to shareholders are reflected in the quoted current distribution rate or taxable equivalent distribution rate. The current distribution rate is computed by dividing the total amount of dividends per share paid by the Fund during the past 12 months by a current maximum offering price. A taxable equivalent distribution rate demonstrates the taxable distribution rate equivalent to the Fund's current distribution rate (calculated as indicated above). The advertised taxable equivalent distribution rate will reflect the most current federal tax rates available to the Fund. Under certain circumstances, such as when there has been a change in the amount of dividend payout, or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid over the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than interest, such as short-term capital gains, and is calculated over a different period of time.

VOLATILITY

Occasionally statistics may be used to specify Fund volatility or risk. Measures of volatility or risk are generally used to compare Fund net asset value or performance relative to a market index. One measure of volatility or risk is standard deviation. Standard deviation is used to measure variability of net asset value or total return around an average over a specified period of time. The premise is that greater volatility connotes greater risk undertaken in achieving performance.

OTHER PERFORMANCE QUOTATIONS

With respect to those categories of investors who are permitted to purchase shares of the Fund at net asset value, sales literature pertaining to the Fund may quote a "Current Distribution Rate for Net Asset

Value Investments." This rate is computed by adding the income dividends paid by the Fund during the last 12 months and dividing that sum by a current net asset value. Figures for yield, total return and other measures of performance for Net Asset Value Investments may also be quoted. These will be derived as described elsewhere in this SAI with the substitution of net asset value for public offering price.

Regardless of the method used, past performance is not necessarily indicative of future results, but is an indication of the return to shareholders only for the limited historical period used.

The Fund may include in its advertising or sales material information relating to investment objectives and performance results of funds belonging to the Templeton Group of Funds. Resources is the parent company of the advisers and underwriter of both the Franklin Group of Funds and Templeton Group of Funds.

COMPARISONS

To help investors better evaluate how an investment in the Fund might satisfy their investment objective, advertisements and other materials regarding the Fund may discuss various measures of Fund performance as reported by various financial publications. Materials may also compare performance (as calculated above) to performance as reported by other investments, indices, and averages. Such comparisons may include, but are not limited to, the following examples:

a) Salomon Brothers Broad Bond Index or its component indices - The Broad Index measures yield, price, and total return for Treasury, Agency, Corporate, and Mortgage bonds.

b) Lehman Brothers Aggregate Bond Index or its component indices - The Aggregate Bond Index measures yield, price and total return for Treasury, Agency, Corporate, Mortgage, and Yankee bonds.

c) Smith Barney, Shearson Donoghue's Money Fund Report Industry averages for 7-day annualized and compounded yields of taxable, tax-free, and government money funds.

d) Lehman Brothers Municipal Bond Index (LBMBI) or its component indices - LBMBI measures yield, price and total return for the municipal bond market.

e) Bond Buyers's 20-Bond Index - an index of municipal bond yields based upon yields of 20 general obligation bonds maturing in 20 years.

f) Bond Buyer's 30-Bond Index - an index of municipal bond yields based upon yields of 20 revenue bonds maturing in 30 years.

g) Financial publications: The Wall Street Journal and Business Week, Financial World, Forbes, Fortune, and Money magazines - provide performance statistics over specified time periods.

h) Salomon Brothers Composite High Yield Index or its component indices - The High Yield Index measures yield, price and total return for Long-Term High-Yield Index, Intermediate-Term High-Yield Index, Long-Term Utility High-Yield Index.

i) Historical data supplied by the research departments of First Boston Corporation, the J. P. Morgan companies, Salomon Brothers, Merrill Lynch, Pierce, Fenner & Smith, Lehman Brothers and Bloomberg, L.P.

j) Merrill Lynch California Municipal Bond Index - based upon yields from revenue and general obligation bonds weighted in accordance with their respective importance to the California municipal market. The index is published weekly in the Los Angeles Times and the San Francisco Chronicle.

k) Lipper - Mutual Fund Performance Analysis and Lipper - Fixed Income Fund Performance Analysis - measure total return and average current yield for the mutual fund industry. Rank individual mutual fund performance over specified time periods, assuming reinvestment of all distributions, exclusive of any applicable sales charges.

From time to time, advertisements or information for the Fund may include a discussion of certain attributes or benefits to be derived by an investment in the Fund. Such advertisements or information may include symbols, headlines, or other material which highlight or summarize the information discussed in more detail in the communication.

Advertisements or information may also compare the Fund's performance to the return on certificates of deposit or other investments. Investors should be aware, however, that an investment in the Fund involves the risk of fluctuation of principal value, a risk generally not present in an investment in a certificate of deposit issued by a bank. For example, as the general level of interest rates rise, the value of the Fund's fixed-income investments, as well

as the value of its shares which are based upon the value of such portfolio investments, can be expected to decrease. Conversely, when interest rates decrease, the value of the Fund's shares can be expected to increase. Certificates of deposit are frequently insured by an agency of the U.S. government. An investment in the Fund is not insured by any federal, state or private entity.

In assessing such comparisons of performance, an investor should keep in mind that the composition

16

of the investments in the reported indices and averages is not identical to the Fund's portfolio, that the indices and averages are generally unmanaged, and that the items included in the calculations of such averages may not be identical to the formula used by the Fund to calculate its figures. In addition there can be no assurance that the Fund will continue this performance as compared to such other averages.

OTHER FEATURES AND BENEFITS

The Fund may help investors achieve various investment goals such as accumulating money for retirement, saving for a down payment on a home, college cost and/or other long-term goals. The Franklin College Costs Planner may assist an investor in determining how much money must be invested on a monthly basis in order to have a projected amount available in the future to fund a child's college education. (Projected college cost estimates are based upon current costs published by the College Board.) The Franklin Retirement Planning Guide leads an investor through the steps to start a retirement savings program. Of course, an investment in the Fund cannot guarantee that such goals will be met.

MISCELLANEOUS INFORMATION

The Fund is a member of the Franklin/Templeton Group, one of the largest mutual fund organizations in the United States, and may be considered in a program for diversification of assets. Founded in 1947, Franklin, one of the oldest mutual fund organizations, has managed mutual funds for over 45 years and now services more than 2.4 million shareholder accounts. In 1992, Franklin, a leader in managing fixed-income mutual funds and an innovator in creating domestic equity funds, joined forces with Templeton Worldwide, Inc., a pioneer in international investing. Together, the Franklin/Templeton Group has over \$117 billion in assets under management for more than 3.7 million shareholder accounts and offers 111 U.S. based mutual funds. The Fund may identify itself by its NASDAQ or CUSIP number.

Franklin is a leader in the tax-free mutual fund industry and manages more than \$40 billion in municipal bond assets for over half a million investors.

The Dalbar Surveys, Inc. broker/dealer survey has ranked Franklin number one of 36 mutual fund groups in service quality for 1993. One other fund group was also ranked number one. Franklin has been ranked number one in service quality by Dalbar for five of the past six years.

From time to time advertisements or sales material issued by the Fund may discuss or be based upon information in a recent issue of the Special Report on Tax Freedom Day published by the Tax Foundation, a Washington, D.C. based nonprofit, research and public education organization. The report illustrates, among other things, the amount of time, on an annual basis, the average taxpayer works to satisfy his or her tax obligations to the federal, state and local taxing authorities.

OWNERSHIP AND AUTHORITY DISPUTES

In the event of disputes involving multiple claims of ownership or authority to control a shareholder's account, the Fund has the right (but has no obligation) to: (a) freeze the account and require the written agreement of all persons deemed by the Fund to have a potential property interest in the account, prior to executing instructions regarding the account; (b) interplead disputed funds or accounts with a court of competent jurisdiction; or (c) surrender ownership of all or a portion of the account to the IRS in response to a Notice of Levy.

APPENDIX

DESCRIPTION OF MUNICIPAL BOND RATINGS:

Moody's

Aaa: Municipal bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edged." Interest payments are protected by a large or by an exceptionally stable margin, and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa: Municipal bonds which are rated Aa are judged to be high quality by all standards. Together with the Aaa group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities, fluctuation of protective elements may be of greater amplitude, or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A: Municipal bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present

17

which suggest a susceptibility to impairment sometime in the future.

Baa: Bonds which are rated Baa are considered as medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well.

Ba: Bonds which are rated Ba are judged to have predominantly speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and, thereby, not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca: Bonds which are rated Ca represent obligations which are speculative to a high degree. Such issues are often in default or have other marked shortcomings.

C: Bonds which are rated C are the lowest-rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Con. (-): Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis condition.

Note: Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond ratings. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; modifier 2 indicates a mid-range ranking; and modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

S&P

AAA: Municipal bonds rated AAA are highest-grade obligations. They possess the ultimate degree of protection as to principal and interest. In the market they move with interest rates and, hence, provide the maximum safety on all counts.

AA: Municipal bonds rated AA also qualify as high-grade obligations, and in the majority of instances differ from AAA issues only in a small degree. Here, too, prices move with the long-term money market.

A: Municipal bonds rated A are regarded as upper medium-grade. They have considerable investment strength but are not entirely free from adverse effects of changes in economic and trade conditions. Interest and principal are regarded as safe. They predominantly reflect money rates in their market behavior, but also, to some extent, economic conditions.

BBB: Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

BB, B, CCC, CC: Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

C: This rating is reserved for income bonds on which no interest is being paid.

D: Debt rated "D" is in default, and payment of interest and/or repayment of principal is in arrears.

Note: The S&P ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Fitch

AAA bonds: Considered to be of investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

AA bonds: Considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong although

18

not quite as strong as bonds rated AAA and not significantly vulnerable to foreseeable future developments.

A bonds: Considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB bonds: Considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefor impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

BB bonds: Considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B bonds: Considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

CCC bonds: Have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

CC bonds: Minimally protected. Default in payment of interest and/or principal seems probable over time.

C bonds: Imminent default in payment of interest or principal.

DDD, DD and D bonds: Are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. DDD represents the highest potential for recovery while D represents the lowest potential for recovery.

Plus (+) or minus (-) signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus or minus are not used for the AAA and the DDD, DD or D categories.

19

FRANKLIN FEDERAL TAX-FREE INCOME FUND

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
of Franklin Federal Tax-Free Income Fund:

We have audited the accompanying statement of assets and liabilities of Franklin Federal Tax-Free Income Fund (the Fund), including the statement of investments in securities and net assets, as of April 30, 1994, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights, included under the caption "Financial Highlights," for each of the periods indicated thereon. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of April 30, 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Franklin Federal Tax-Free Income Fund as of April 30, 1994, the results of its operation for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated thereon, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

San Francisco, California
June 3, 1994

20

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994

<TABLE>
<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS 98.0%	
	ALABAMA 1.0%	
\$ 5,400,000	Alabama Special Care Facilities Financing Authority, Montgomery Hospital Revenue, Refunding, Baptist Hospital Gadsden, Inc. Project, Pre-Refunded, 10.25%, 11/01/15 ...	\$ 5,892,804
6,000,000	Alabama State Docks Department Coal Revenue, Refunding, Pre-Refunded, 10.00%, 10/01/05.....	6,598,380
7,000,000	Alabama Water Pollution Control Authority, Revolving Fund, Series B, 7.75%, 08/15/12	7,324,240
5,000,000	Birmingham GO, Street Improvement Warrants, Pre-Refunded, 8.00%, 07/01/13	5,641,200
1,000,000	Citronelle IDB, PCR, Stauffer Chemical Project, Guaranteed by Imperial Chemical, Plc., Series 1982, 8.00%, 12/01/12.....	1,137,020
12,000,000	Courtland IDB, IDR, Refunding, Champion International Corp., Series A, 7.20%, 12/01/13.....	12,527,880
30,000,000	West Jefferson IDB, PCR, Refunding, Alabama Power Co., Miller Plant, Series C, MBIA Insured, 6.05%, 05/01/23.....	28,890,300

		68,011,824

	ALASKA .9%	
1,775,000	Alaska Industrial Development and Export Authority, Revolving Fund, Series A, 7.95%, 04/01/10.....	1,930,969
	Alaska State HFC,	
1,225,000	CHM, Series A, 8.375%, 12/01/16	1,269,590
4,300,000	CHM, Series A-1, 6.75%, 12/01/32	4,312,126
3,975,000	CHM, Series A-3, 7.70%, 12/01/13	4,114,164
8,000,000	Housing, Series A, 6.60%, 12/01/23	8,133,280
2,155,000	Housing, Series B, 5.625%, 12/01/23	1,868,234
12,500,000	Insured Mortgage Program, 1st Series, 5.80%, 12/01/18	11,375,875
8,825,000	Refunding, Mortgage Insured, Program 1, Series 1990-B, 7.80%, 12/01/30	9,058,245
	Anchorage Parking Authority Revenue, Refunding,	
3,360,000	5th Avenue Garage Lease Project, 6.50%, 12/01/02	3,443,967
3,500,000	5th Avenue Garage Lease Project, 6.75%, 12/01/08	3,520,755
	Valdez Marine Terminal Revenue, Refunding,	
10,000,000	Pipeline, Inc. Project, 5.90%, 02/01/07	9,823,500
2,000,000	Pipeline, Inc. Project, 5.75%, 11/01/28	1,794,620

		60,645,325
	ARIZONA .7%	
5,275,000	Coconino County PCR, Series A, 5.875%, 08/15/28	4,629,287
14,720,000	Glendale IDA, Hospital Revenue, Northwest Development, Inc. Project, 8.875%, 01/01/16.....	15,674,739
7,400,000	Navajo County PCR, Refunding, Arizona Public Service Co., Series A, 5.875%, 08/15/28.....	6,628,254
11,680,000	Pima County IDA, MFHR, Fountains La Cholla Project, FHA Mortgage Insured, 8.00%, 12/01/25.....	11,933,689
5,820,000	Tempe IDA, Residential Care Facilities Revenue, Volunteers of America Care Facilities, 9.00%, 06/01/18.....	6,140,682
		45,006,651
	ARKANSAS .2%	
	Arkansas State Development Finance Authority, SFMR, Mortgage Backed Securities Program,	
5,000,000	Series B, 5.65%, 06/01/16	4,570,650
3,530,000	Series D, 5.65%, 06/01/16	3,246,435
1,270,000	Arkansas State Development Finance Authority, Water Revenue, Refunding, Revolving Loan Program, Series B, MBIA Insured, 5.25%, 12/01/10.....	1,173,302
3,615,000	Desha County, Residential Housing Facilities Board, SFMR, Refunding, 7.50%, 04/01/11.....	3,845,600

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	ARKANSAS (CONT.)	
\$ 3,115,000	Independence County, Public Health & Education Facilities Board Capital Revenue, Improvement & Refunding, White River Control Project, 8.00%, 06/01/09.....	\$ 3,279,036
		16,115,023
	CALIFORNIA 1.3%	
	Alhambra COP,	
410,000	Clubhouse Facility Project, 11.25%, 01/01/08	437,105
455,000	Clubhouse Facility Project, 11.25%, 01/01/09	484,685
500,000	Clubhouse Facility Project, 11.25%, 01/01/10	532,620
5,325,000	Burbank RDA, Refunding, Tax Allocation, Series A, 6.25%, 12/01/24	4,924,080
2,030,000	California State Education Facilities Authority Revenue,	
3,580,000	National University, Connie Lee Insured, 6.00%, 05/01/09	3,514,128
2,225,000	Pooled College & University Financing, Refunding, Series B, 5.50%, 06/01/00....	2,187,798
1,000,000	Pooled College & University Financing, Refunding, Series B, 5.70%, 06/01/01....	983,990
4,000,000	California State Public Works Board Lease Revenue, Various University of California Projects, Series A, 6.375%, 10/01/14.....	3,943,600
1,020,000	Coalinga Public Finance Authority Revenue, Series B, 6.25%, 09/15/07	970,295
1,000,000	Commerce, Refuse to Energy Authority Revenue, Series 1984-A, 11.50%, 11/01/10.....	1,063,180
1,360,000	Corona-Norco USD, CFD No. 3, Pre-Refunded, 12.00%, 11/01/04	1,458,124
4,000,000	Eden Township Hospital District Health Facilities Revenue, Refunding, COP, Eden Hospital Health Services Corp., 5.75%, 07/01/12.....	3,635,080
	Forty-Niner Shops, Inc., Auxiliary Organization,	
1,090,000	California State Long Beach Project, 6.875%, 04/01/07	1,108,268
1,565,000	California State Long Beach Project, 6.875%, 04/01/12	1,579,946
1,300,000	Los Angeles CRDA, Community Redevelopment Finance Authority Revenue, Grand Center Qualified Redevelopment, Series A, 5.90%, 12/01/26.....	1,110,057
6,400,000	Los Angeles Regional Airport Improvements Corp., Lease Revenue, Refunding, United Airlines, 6.875%, 11/15/12.....	6,169,856
870,000	Redlands COP, Refunding, Loma Linda University Medical Center, Series D, MBIA Insured, 5.00%, 12/01/04.....	826,744
6,000,000	San Francisco City and County Redevelopment, MFR, Refunding, South Beach Project, GNMA Insured, 5.70%, 03/01/29.....	5,385,780
	San Joaquin Hills Transportation,	
18,795,000	Corridor Agency Toll Road Revenue, 7.00%, 01/01/30	18,646,143
23,125,000	Corridor Agency Toll Road Revenue, 6.75%, 01/01/32	22,328,344
	Santa Barbara County Revenue, COP, Refunding,	
2,500,000	Montecito Retirement, 5.75%, 04/01/13	2,279,725
3,150,000	Montecito Retirement, 5.80%, 04/01/18	2,841,836

	COLORADO 3.8%	
5,000,000	Arvada, City of, MFR Rental Housing, Arvada Manor Project, GNMA Mortgage Backed Securities, 8.25%, 12/20/25.....	5,118,450
9,000,000	Colorado Health Facilities Revenue Authority, Porter Memorial Hospital Project, Series A, Pre-Refunded, 7.40%, 02/01/16.....	10,017,270
	Colorado HFA, GO,	
1,595,000	Series A, 7.50%, 05/01/29	1,671,305
2,745,000	Series A, 8.375%, 01/01/30	2,852,220
	Denver City & County, Airport System Revenue,	
1,000,000	Series 1985, 8.375%, 08/01/96	1,005,770
2,000,000	Series 1985, 8.375%, 08/01/11	2,030,640
7,200,000	Series A, 7.50%, 11/15/12	7,330,680
15,645,000	Series A, 8.875%, 11/15/12	17,186,502
79,945,000	Series A, 8.50%, 11/15/23	85,423,631

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<CAPTION>		FACE AMOUNT	VALUE (NOTE 1)
<S>	<C>		<C>
	LONG TERM INVESTMENTS (CONT.)		
	COLORADO (CONT.)		
	Denver City & County, Airport System Revenue, (cont.)		
\$ 10,000,000	Series A, 7.25%, 11/15/25		\$ 9,938,300
22,325,000	Series A, 8.00%, 11/15/25		23,202,819
11,460,000	Series D, 7.00%, 11/15/25		10,640,953
44,800,000	dDenver City & County, Special Facilities Airport Revenue, United Airlines Project, Series A, 6.875%, 10/01/32.....		41,493,312
4,000,000	Jefferson County, School District No. R-001, AMBAC Insured, 6.25%, 12/15/12		4,042,920
6,925,000	Littleton IDR, Porter Memorial Hospital Medical Office Project, Series 1982, Pre-Refunded, 8.00%, 02/01/12.....		7,630,242
16,500,000	Littleton MFR, Rental Housing, Riverpointe I Project, Series 1985, Mandatory Put 10/01/96, 8.00%, 12/01/22.....		16,759,545
6,500,000	University of Colorado Hospital Authority Revenue, Series A, AMBAC Insured, 6.40%, 11/15/22.....		6,534,385
6,000,000	Westminster Sales & Use Tax Revenue, Series A, FGIC Insured, 6.25%, 12/01/12		6,047,100
			258,926,044
	CONNECTICUT		
3,000,000	Connecticut State Housing Mortgage Finance Revenue, Series A-1, 5.85%, 11/15/16.....		2,797,740
	DELAWARE		
1,160,000	Delaware State EDA Revenue, Refunding, Water Development, Wilmington, Series B, 6.45%, 12/01/07.....		1,197,039
2,000,000	Delaware State Housing Authority, Refunding, MFMR, Series D, 6.75%, 07/01/06		2,002,220
			3,199,259
	DISTRICT OF COLUMBIA .6%		
6,500,000	District of Columbia GO, Series A, Pre-Refunded, 8.00%, 06/01/07		7,174,960
	District of Columbia HFA, MFHR,		
1,870,000	Refunding, FHA Insured, Series A, 7.10%, 09/01/12		1,944,164
6,755,000	Refunding, FHA Insured, Series A, 7.15%, 03/01/24		6,999,464
6,110,000	District of Columbia HFA, MFHR, FHA Mortgage Insured, Mayfair Mansions Apartments, 8.85%, 02/01/31.....		6,288,839
195,000	District of Columbia HFA, RMR, Series 1983-1, 11.375%, 07/01/08		199,875
4,835,000	District of Columbia Hospital Revenue, Washington Hospital Center Corp., Series A, 9.00%, 01/01/08.....		5,900,827
5,685,000	District of Columbia Revenue, Association of American Medical Colleges, 7.50%, 02/15/20.....		6,231,555
5,265,000	District of Columbia Revenue, Catholic University of America, 6.45%, 10/01/23		5,302,592
			40,042,276
	FLORIDA 3.7%		
	Bay County Resource Recovery Revenue,		
2,100,000	Refunding, Series A, MBIA Insured, 6.50%, 07/01/07		2,213,043
11,020,000	Refunding, Series B, MBIA Insured, 6.50%, 07/01/07		11,613,207
2,620,000	Series 1984, Pre-Refunded, 8.00%, 07/01/12		2,887,554

45,875,000	Broward County Resource Recovery Revenue, Broward Waste Energy Co., Limited Partnership, North Project, Series 1984, 7.95%, 12/01/08.....	50,241,382
3,800,000	Dunes Community Development District Revenue, Water and Sewer Project, Pre-Refunded, 8.25%, 10/01/18.....	4,346,744
5,285,000	Duval County HFA, MFHR, Magnolia Arms Apartments Project, Series A, 9.50%, 08/15/17.....	2,114,000
4,000,000	Escambia County HFA, Baptist Hospital, Inc., Series B, 6.00%, 10/01/14	3,580,560
22,475,000	Florida State Board of Education Capital Outlay, Refunding, Public Education, Series 1992, 6.40%, 06/01/19	23,063,845
6,000,000	Series A, 6.00%, 06/01/25	5,779,200

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	
	LONG TERM INVESTMENTS (CONT.)	
	FLORIDA (CONT.)	
	Florida State Department of General Services, Division of Facilities Management Revenue,	
\$16,000,000	Florida Facilities Pooled, Pre-Refunded, 7.75%, 09/01/16	\$ 17,457,280
2,000,000	Florida Facilities Pooled, Pre-Refunded, 8.125%, 09/01/17	2,282,280
7,125,000	Florida State Department of Transportation, Turnpike Revenue, Series A, Pre-Refunded, 7.75%, 07/01/09.....	8,115,161
20,500,000	Hillsborough County Capital Improvement Program, Water & Wastewater Facilities Revenue, BMTF, Mode A, Sub-Series 2, Pre-Refunded, 8.30%, 08/01/16.....	22,243,525
4,245,000	Lakeland Retirement Community, 1st Mortgage Revenue, Carpenters Home Estate Project, 9.50%, 09/01/06.....	4,159,803
6,500,000	Manatee County IDR, Manatee Hospital & Health Systems, Inc., 9.25%, 03/01/21	7,290,985
7,500,000	North Broward Hospital District, Hospital Revenue, Pre-Refunded, 8.00%, 01/01/14 ...	8,149,725
4,835,000	Orange County Health Facilities Authority Revenue,	
6,005,000	Pooled Hospital Loan Program, Series B, BIG Insured, 7.875%, 12/01/25	5,219,720
	Refunding, Pooled Hospital Loan Program, Series 1985-A, FGIC Insured, 7.875%, 12/01/25.....	6,482,818
16,000,000	St. Augustine Water & Sewer Utility Revenue, Refunding, 8.125%, 10/01/12	17,026,400
2,500,000	Santa Rosa County Health Facilities Authority Revenue, Refunding, Gulf Breeze Hospital, Inc., Pre-Refunded, 8.70%, 10/01/14.....	2,892,925
11,010,000	Tampa Capital Improvement Program Revenue,	
	Series A, 8.25%, 10/01/18	11,845,109
30,250,000	Series B, 8.375%, 10/01/18	32,507,860

		251,513,126

	GEORGIA 2.6%	
	Burke County Development Authority PCR, Georgia Power Co., Plant Vogle Project,	
4,300,000	Series 1985-1, FGIC Insured, 10.125%, 06/01/15	4,630,068
5,015,000	Series 1985-2, 10.60%, 10/01/15	5,517,954
1,345,000	Series 1985-3, 10.50%, 11/01/15	1,484,302
14,500,000	a,b,cDeKalb County Residential Care Facilities for the Elderly Authority Revenue, Refunding, Kings Bridge Retirement Center, Inc., 8.75%, 01/01/17.....	4,350,000
	Fulton County Development Authority Special Facilities Revenue,	
3,400,000	Refunding, Delta Air Lines, Inc. Project, 6.85%, 11/01/07	3,275,662
5,500,000	Refunding, Delta Air Lines, Inc. Project, 6.95%, 11/01/12	5,258,055
	Georgia Municipal Electric Authority Power Revenue,	
19,200,000	Series A, Pre-Refunded, 7.875%, 01/01/18	20,640,000
14,000,000	Series B, 6.375%, 01/01/16	14,187,460
50,000,000	Series L, Pre-Refunded, 7.75%, 01/01/18	54,838,500
18,500,000	Georgia Municipal Electric Authority Special Obligation, Refunding, Second Crossover Series, 8.125%, 01/01/17.....	20,616,585
5,505,000	Georgia State HFA, Revenue Homeownership Opportunity Program, Series C, 6.60%, 12/01/23.....	5,521,240
	Monroe County Development Authority, PCR, Georgia Power Co.,	
16,000,000	Plant Scherer Project, 8.375%, 07/01/17	17,434,400
4,950,000	Plant Scherer Project, Series 1, 10.50%, 09/01/15	5,405,598
10,000,000	Putnam County Development Authority, PCR, Refunding, Georgia Power Co., Plant Branch Project, 8.375%, 07/01/17.....	10,964,800

		174,124,624

	HAWAII 1.0%	
	Hawaii State Airports Systems Revenue,	
12,000,000	2nd Series, 7.00%, 07/01/07	12,695,880
500,000	2nd Series, 6.90%, 07/01/12	527,660
2,830,000	2nd Series, 7.00%, 07/01/18	2,939,946

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>
 <CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	HAWAII (CONT.)	
	Hawaii State Department of Budget & Finance, Special Purposes Mortgage Revenue,	
\$ 200,000	Hawaii Electric Light Co. Project, 7.20%, 12/01/14	\$ 215,278
1,000,000	Hawaii Electric Light Co. Project, Series A, 7.35%, 01/01/20	1,055,430
900,000	Kaiser Hospital, 6.25%, 03/01/21	897,570
1,000,000	Wahiawa General Hospital Project, 7.50%, 07/01/12	1,054,340
125,000	Hawaii State Department of Transportation Special Facilities Revenue, Refunding,	
	Matson Terminals, Inc., 5.75%, 03/01/13	115,400
4,900,000	Hawaii State GO, Series B-W, 6.375%, 03/01/11	5,129,565
	Hawaii State HFC, SFMR,	
230,000	Series A, 7.00%, 07/01/11	232,240
3,350,000	Series A, 7.10%, 07/01/24	3,382,931
17,000,000	Series B, 5.700%, 07/01/13	15,908,600
360,000	Series B, 6.90%, 07/01/16	363,474
3,500,000	Series B, 5.85%, 07/01/17	3,276,805
11,880,000	Series B, 7.00%, 07/01/31	11,995,711
	Honolulu City & County GO,	
415,000	Series A, 6.30%, 03/01/08	430,011
1,000,000	Series A, 6.30%, 03/01/12	1,027,130
6,000,000	Series A, 5.75%, 04/01/12	5,849,160
300,000	Series A, Pre-Refunded, 6.70%, 08/01/11	329,838
500,000	Series B, 5.50%, 10/01/11	474,225
	Maui County Board Water Revenue,	
500,000	Series A, FGIC Insured, Pre-Refunded, 6.65%, 12/01/09	549,900
400,000	Series A, FGIC Insured, Pre-Refunded, 6.70%, 12/01/11	441,160

		69,948,804

	IDAHO .1%	
	Idaho Housing Agency, SFMR,	
1,800,000	Senior Bond, Series B-1, FGIC Insured, 7.850%, 07/01/09	1,852,110
2,850,000	Senior Bond, Series B-1, FGIC Insured, 7.90%, 01/01/21	2,940,345

		4,792,455

	ILLINOIS 5.2%	
7,500,000	Aurora Hanover Park Naperville MFR, Series B, GNMA Insured, 6.75%, 05/15/24	7,634,325
	Bryant PCR, Refunding, Central Illinois Light Co. Project,	
7,200,000	Series A, 6.50%, 02/01/18	7,328,880
5,000,000	Series C, 6.50%, 01/01/10	5,111,200
10,000,000	Chicago Central Public Library, Series B, AMBAC Insured, Pre-Refunded, 6.85%,	
	01/01/17	11,112,300
23,500,000	Chicago COP, AMBAC Insured, 7.75%, 07/15/11	25,641,555
	Chicago Metropolitan Housing Development Corp., Housing Development Mortgage	
	Revenue,	
1,500,000	Refunding, Series B, MBIA Insured, 5.70%, 01/01/13	1,408,170
2,240,000	Refunding, Series B, MBIA Insured, 5.80%, 01/01/25	2,071,485
	Chicago-O'Hare International Airport Revenue,	
4,300,000	Special Facility United Airlines, Inc., 8.45%, 05/01/07	4,631,315
12,305,000	Special Facility United Airlines, Inc., 8.50%, 05/01/18	13,276,357
485,000	Special Facility United Airlines, Inc., Series A, 8.40%, 05/01/18	519,450
29,345,000	Special Facility United Airlines, Inc., Series C, 8.20%, 05/01/18	31,429,962
5,000,000	Chicago School Finance Authority GO, Refunding, Pre-Refunded, 7.75%, 06/01/09 ..	5,276,900
	Illinois Development Finance Authority, PCR,	
2,400,000	Commonwealth Edison Co. Project, Series 1985-A, 10.625%, 03/01/15	2,548,368
7,500,000	Commonwealth Edison Co. Project, Series 1991, 7.25%, 06/01/11	7,859,475
15,200,000	Refunding, Central Illinois Public Services Co., Series A, 6.375%, 01/01/28	15,236,328
25,960,000	Refunding, Illinois Power Co. Project, Series A, 7.375%, 07/01/21	27,833,533

</TABLE>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE> <CAPTION>	FACE AMOUNT	VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	ILLINOIS (CONT.)	
\$ 3,000,000	Illinois Development Financial Authority, PCR, Refunding, Illinois Power Co. Project, Series A, 1st Mortgage, MBIA Insured, 5.70%, 02/01/24	\$ 2,696,370
6,000,000	Illinois Development Financial Authority Revenue, Refunding, Marriott Retirement, Series A, 7.75%, 08/01/10	6,322,140
6,000,000	Illinois Educational Facilities Authority Revenue, Shedd Aquarium Society, Series 1987-A, 8.625%, 07/01/17	6,618,000
12,150,000	Illinois HDA, Housing Developing, Series A, 6.00%, 07/01/18	11,483,937
1,000,000	MFH, Series A, 6.05%, 07/01/15	956,290
7,525,000	RMR, Series B, 7.25%, 08/01/17	7,742,924
12,000,000	Illinois HDA, MF, Program, Series 1, 6.625%, 09/01/12	12,021,360
7,550,000	Series 1, 6.75%, 09/01/21	7,577,709
13,000,000	Series A, Refunding, 7.10%, 07/01/26	13,328,770
5,290,000	Series C, Pre-Refunded, 7.35%, 07/01/11	5,445,209
2,000,000	Illinois Health Facilities Authority Revenue, Edwards Hospital Project, 7.00%, 02/15/22	2,055,220
3,650,000	Illinois Health Facilities Authority Revenue, Refunding, Galesburg Cottage Hospital, Pre-Refunded, 9.625%, 05/01/11	4,205,567
9,345,000	Grant Hospital of Chicago, Series 1986, Pre-Refunded, 7.50%, 06/01/13	10,160,538
1,000,000	Servantcor, Series A, 7.875%, 08/15/19	1,058,970
3,000,000	Servantcor, Series B, 7.875%, 08/15/19	3,176,910
6,200,000	Westlake Community Hospital, 7.875%, 01/01/13	6,551,044
7,000,000	Illinois Health Facilities Authority Revenue, Refunding, South Suburban Hospital, 7.00%, 02/15/18	7,147,840
2,600,000	Illinois State COP, Capital Guaranty, 6.875%, 07/01/07	2,803,060
3,825,000	Lombard, Village of, Revenue, Refunding, Beacon Hill Project, 9.00%, 02/15/08	3,906,855
8,260,000	Metropolitan Pier & Exposition Authority Dedicated State Tax Revenue, Expansion, Project A, 6.50%, 06/15/22	8,185,495
27,615,000	Expansion, Project A, 6.50%, 06/15/27	27,169,846
4,350,000	Onterie Center HFC, Mortgage Revenue, Refunding, Series 1989-A, MBIA Insured, 7.05%, 07/01/27	4,417,208
6,200,000	Southwestern Illinois Development Authority, Anderson Hospital Project, Series A, 7.00%, 08/15/22	6,006,560
3,030,000	Private Activity Revenue, Progressive Recovery Glenmark, 8.50%, 08/01/10	3,361,968
5,500,000	Solid Waste Disposal Revenue, LaCede Steel Co., 8.375%, 08/01/08	6,104,615
10,000,000	Solid Waste Disposal Revenue, LaCede Steel Co., 8.50%, 08/01/20	11,162,400

		350,586,408

	INDIANA 1.9%	
	Frankfort Middle School Building Corp.,	
605,000	1st Mortgage Revenue, Pre-Refunded, 8.00%, 01/01/07	658,530
660,000	1st Mortgage Revenue, Pre-Refunded, 8.10%, 01/01/08	719,737
720,000	1st Mortgage Revenue, Pre-Refunded, 8.10%, 01/01/09	785,167
785,000	1st Mortgage Revenue, Pre-Refunded, 8.10%, 01/01/10	856,050
860,000	1st Mortgage Revenue, Pre-Refunded, 8.10%, 01/01/11	937,839
935,000	1st Mortgage Revenue, Pre-Refunded, 8.10%, 01/01/12	1,019,627
2,355,000	Hammond PCR, Stauffer Chemical Project, Guaranteed by Imperial Chemical, Plc., Series 1982, 8.00%, 11/01/12	2,675,775
6,000,000	Indiana Bond Bank, Special Program, Series 1986-A, 7.75%, 08/01/09	6,348,540
1,155,000	Series 1988-A, Pre-Refunded, 8.375%, 02/01/18	1,280,618
2,535,000	Series 1994-A-1, 5.60%, 08/01/15	2,284,694
3,500,000	Indiana Health Facility Financing Authority, Hospital Revenue, Hancock Memorial Hospital Project, Series 1990, 8.30%, 08/15/20	3,745,070
5,000,000	Indiana Highland School Building Corp. Mortgage, Pre-Refunded, 6.75%, 01/15/20	5,519,450
</TABLE>		

The accompanying notes are an integral part of these financial statements.

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE> <CAPTION>	FACE AMOUNT	VALUE (NOTE 1)
----------------------	----------------	-------------------

<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	INDIANA (CONT.)	
	Indiana Municipal Power Agency, Power Supply Systems Revenue,	
\$10,000,000	Refunding, Series A, 5.75%, 01/01/18	\$ 9,155,500
5,000,000	Series A, MBIA Insured, 6.125%, 01/01/19	4,794,250
3,240,000	Indiana State Educational Facilities Authority Revenue, Manchester College Project,	
	6.85%, 10/01/18	3,186,929
	Indiana State Housing Financing Authority, SFMR,	
3,805,000	Refunding, Series A, 6.75%, 01/01/10	3,813,105
16,570,000	Refunding, Series A, 6.80%, 01/01/17	16,606,454
	Indianapolis Local Public Improvement,	
6,000,000	Series A, 6.00%, 01/10/18	5,829,660
12,075,000	Series D, 6.75%, 02/01/20	12,294,644
	Indianapolis Resource Recovery Revenue, Ogden Martin System, Inc.,	
5,550,000	Series A, 7.90%, 12/01/08	6,012,371
1,505,000	Series B, 7.90%, 12/01/08	1,630,382
23,650,000	Lawrenceburg PCR, Refunding, Michigan Power Co. Project, Series E, 5.90%,	
	11/01/19	20,907,310
4,000,000	Merrillville, Multi School Building Corp., 1st Mortgage, Pre-Refunded, 7.50%, 07/15/09	4,562,360
10,750,000	Petersburg PCR, Refunding, Indianapolis Power & Light Co., Series A, 6.10%,	
	01/01/16	10,313,013

		125,937,075

	IOWA	
2,500,000	Carroll Retirement Facility Revenue, Orchard View, Inc. Project, Pre-Refunded, 8.250%,	
	02/01/13	2,805,925

	KANSAS .4%	
	Merriam Hospital Revenue Improvement,	
5,815,000	Shawnee Medical Center, Inc. Project A, 7.25%, 09/01/11	6,041,378
15,215,000	Shawnee Medical Center, Inc. Project A, 7.25%, 09/01/21	15,679,818
1,560,000	Shawnee Medical Center, Inc. Project B, 7.25%, 09/01/11	1,613,087
3,580,000	Shawnee Medical Center, Inc. Project B, 7.25%, 09/01/21	3,689,369
3,000,000	Olathe Hospital Revenue, Olathe Hospital Foundation, Inc. Project, Pre-Refunded,	
	10.25%, 08/01/16	3,290,340

		30,313,992

	KENTUCKY 1.6%	
3,900,000	Ashland PCR, Refunding, Ashland Oil, Inc. Project, 6.65%, 08/01/09	3,931,122
8,405,000	Christian County Hospital Revenue, Refunding, Jennie Stuart Medical Center Project,	
	7.625%, 04/01/10	8,724,558
	Kenton County Airport Board, Airport Revenue, Special Facilities,	
20,000,000	Delta Air Lines, Inc., 7.80%, 12/01/15	20,513,600
10,000,000	Delta Air Lines, Inc., Project A, 7.50%, 02/01/20	10,073,700
9,330,000	Delta Air Lines, Inc., Project A, 7.125%, 02/01/21	8,989,455
3,350,000	Delta Air Lines, Inc., Project B, 7.25%, 02/01/22	3,267,490
	Kentucky Housing Corp., Housing Revenue,	
2,185,000	Series A, 6.70%, 07/01/17	2,182,444
4,910,000	Series B, 6.625%, 07/01/14	4,902,930
700,000	Kentucky State Development Financial Authority, Hospital Revenue, Claire Medical	
	Center Project, Pre-Refunded, 7.125%, 09/01/21	781,613
4,500,000	Kentucky State Property & Buildings Commission Revenue, Project No. 48,	
	Pre-Refunded, 8.00%, 08/01/08	5,095,035
20,375,000	Mount Sterling Lease Revenue, Kentucky League Cities, Series A, 6.10%, 03/01/08	19,654,744
19,910,000	dPendleton County, Multi-County Lease Revenue, Kentucky Association Counties	
	Leasing Trust, Series A, 6.50%, 03/01/19	19,428,974

		107,545,665

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

	FACE AMOUNT	VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	LOUISIANA 1.1%	
\$ 2,000,000	Bastrop PCR, Refunding, International Paper Co. Project, 6.90%, 03/01/07	\$ 2,095,580

4,310,000	Calcasieu Parish, Memorial Hospital Service District Revenue, Lake Charles Parish Memorial Hospital Project, Series A, CGIC Insured, 6.375%, 12/01/12.....	4,335,429
5,530,000	Lake Charles Parish Memorial Hospital Project, Series A, CGIC Insured, 6.50%, 12/01/18.....	5,570,314
3,145,000	Lake Charles Parish Memorial Hospital Project, Series A, CGIC Insured, 6.65%, 12/01/21.....	3,194,848
5,695,000	Calcasieu Parish, Public Transportation Authority Mortgage Revenue, Refunding, Series 1991-A, 7.75%, 06/01/12	5,893,471
830,000	Refunding, Series 1992-B, 6.375%, 11/01/02	836,789
915,000	Refunding, Series 1992-B, 6.875%, 11/01/12	927,966
4,550,000	East Baton Rouge Mortgage Financing Authority SFM, Series C, 7.00%, 04/01/32	4,582,442
6,355,000	Series D, 7.10%, 04/01/32	6,500,275
3,091,535	Lafayette Public Trust Finance Authority SFMR, Refunding, Series 1990-A, 8.50%, 11/15/12	3,336,138
3,400,000	Louisiana Office Facility Corp., Capital Facility Bonds Statewide Lease, 7.75%, 12/01/10	3,685,770
3,500,000	Louisiana Public Facilities Authority Revenue, Refunding, Series B, Alton Ochsner Medical Foundation Project, MBIA Insured, 6.50%, 05/15/22	3,535,805
8,500,000	Louisiana Stadium & Exposition, District Hotel Occupancy Tax & Stadium Revenue, Refunding, Series A, 6.00%, 07/01/24	8,257,155
8,050,000	Louisiana State GO, dSeries A, AMBAC Insured, 6.10%, 05/01/10	8,063,444
3,530,000	dSeries A, AMBAC Insured, 6.10%, 05/01/11	3,518,845
4,000,000	Quachita Parish, Hospital Service District No. 1 Revenue, Glenwood Regional Medical Center, 7.50%, 07/01/21	4,210,200
2,750,000	St. Charles Parish Environmental Improvement Revenue, Power & Light Co. Project, Series B, 5.95%, 12/01/23	2,394,315
1,900,000	St. James' Parish, COP, 7.50%, 07/01/10	1,963,878
		----- 72,902,664 -----
	MAINE 1.2%	
26,800,000	Financial Authority Solid Waste Recycling Facilities Revenue, Great Northern Paper Co., Bowater Project, 7.75%, 10/01/22	28,459,456
10,925,000	Maine State Health and Higher Education Facilities Authority Revenue, Refunding, Series D, FSA Insured, 5.70%, 07/01/13	10,120,592
1,000,000	Refunding, Series D, FSA Insured, 6.00%, 07/01/24	948,020
13,650,000	Maine State Housing Authority, Mortgage Purchase, Series A, 5.65%, 11/15/20	12,097,859
3,850,000	Series A-5, 6.20%, 11/15/16	3,696,693
3,700,000	Series C, 6.55%, 11/15/12	3,658,856
3,500,000	Series C, 6.65%, 11/15/24	3,461,115
3,540,000	Series D, 6.45%, 11/15/07	3,500,954
1,755,000	Series D-1, 8.30%, 11/15/22	1,800,033
4,500,000	Skowhegan, PCR, Refunding, Scott Paper Co. Project, Series B, 8.10%, 10/01/15	4,971,420
10,000,000	Skowhegan, Solid Waste Disposal Revenue, S.D. Warren Co. Project, Series A, 8.40%, 10/01/15	11,119,600
		----- 83,834,598 -----
	MARYLAND 2.0%	
43,225,000	Gaithersburg Hospital, Facilities Revenue Improvement, Shady Grove Hospital, Series A, 8.25%, 09/01/21	46,351,464

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	MARYLAND 2.0%	
	Maryland State Community Development Administration, Department of Housing & Community Development, MFHR, Insured Mortgage, Series G, 6.55%, 05/15/19	\$ 5,902,613
\$ 5,910,000	SF, 7.25%, 04/01/27	\$ 1,037,010
1,000,000	Series D, 6.05%, 05/15/24	9,535,300
10,000,000	Maryland State Health and Higher Educational Facilities Authority Revenue, Hartford Memorial Hospital and Fallston General Hospital, 8.50%, 07/01/14	5,254,711
4,900,000	Montgomery County, Housing Opportunity Community, SFMR, Refunding, Series B, 6.625%, 07/01/28	6,494,865
6,500,000	Northeast Waste Disposal Authority, Hardford County Resource Recovery, Series A, 1,500,000	

	8.60%, 01/01/08	1,572,585
	Tokoma Park Hospital Facilities Revenue, Refunding,	
31,055,000	Washington Adventist, Series A, 8.25%, 09/01/21	33,620,143
23,210,000	Washington Adventist, Series A, Sub-Series 2, 8.25%, 09/01/21	25,127,146

		134,895,837

	MASSACHUSETTS 4.9%	
10,900,000	Agawam Resource Recovery Revenue, Springfield Resource Recovery Project,	
	Series 1986, 8.50%, 12/01/08	11,746,821
5,750,000	Boston Revenue, Refunding, City Hospital, Series B, 5.75%, 02/15/23	5,116,350
3,915,000	Lowell GO, Pre-Refunded, 7.625%, 02/15/10	4,533,766
2,310,000	Massachusetts Health & Education Facilities Authority Revenue, Notre Dame Health	
	Care Center, Series A, 7.875%, 10/01/22	2,527,140
	Massachusetts State Bay Transportation Authority,	
6,750,000	General Transportation System, Series A, Pre-Refunded, 7.625%, 03/01/15	7,717,275
12,500,000	General Transportation System, Series B, Pre-Refunded, 7.80%, 03/01/10	14,560,000
37,585,000	General Transportation System, Series B, Pre-Refunded, 7.875%, 03/01/21	43,939,120
	Massachusetts State Consolidated Loan,	
7,500,000	Series A, 7.50%, 06/01/04	8,566,350
5,000,000	Series D, 7.00%, 07/01/07	5,450,000
32,830,000	Massachusetts State Dedicated Income Tax, Fiscal Recovery Loan, Series A, 7.875%,	
	06/01/97	34,860,864
5,900,000	Massachusetts State GO, Refunding, Series B, 6.50%, 08/01/08	6,242,908
5,250,000	Massachusetts State HFA, Housing Development, Series D, FGIC Insured, 6.875%,	
	11/15/21	5,436,218
	Massachusetts State HFA, Housing Projects, Refunding,	
25,635,000	Series A, 6.30%, 10/01/13	25,044,626
11,400,000	Series A, 6.375%, 04/01/21	11,064,156
	Massachusetts State Health and Educational Facilities Authority Revenue,	
9,020,000	Framingham Union Hospital, Series B, Pre-Refunded, 8.50%, 07/01/20	10,737,679
1,100,000	Melrose-Wakefield Hospital, Series B, Refunding, 6.35%, 07/01/06	1,100,693
4,680,000	St. Elizabeth's Hospital of Boston, Series B, FHA Mortgage Insured, FGIC Insured,	
	Pre-Refunded, 7.75%, 08/01/27	5,183,896
1,000,000	Sisters Providence Health System, Series A, 6.50%, 11/15/08	981,580
12,050,000	Sisters Providence Health System, Series A, 6.625%, 11/15/22	11,509,076
2,410,000	Massachusetts State HFAR, SFMR, Series G, 8.10%, 12/01/14	2,545,201
	Massachusetts State Housing Facilities Authority,	
250,000	Series C, FGIC Insured, 6.875%, 11/15/11	260,748
9,715,000	Series C, FGIC Insured, 6.90%, 11/15/21	10,077,370
250,000	Series D, FGIC Insured, 6.80%, 11/15/12	259,368
6,000,000	Massachusetts State Industrial Finance Agency, 1st Mortgage Revenue, Brookhaven	
	at Lexington Retirement Project, Pre-Refunded, 10.25%, 01/01/18	7,164,720
	Massachusetts State Water Resource Authority,	
5,950,000	Series A, 6.00%, 04/01/20	5,593,298
5,000,000	Series A, Pre-Refunded, 7.50%, 04/01/09	5,692,700

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	MASSACHUSETTS (CONT.)	
	Massachusetts State Water Resource Authority, (cont.)	
\$13,095,000	Series A, Pre-Refunded, 7.625%, 04/01/14	\$ 14,991,811
4,750,000	Series A, Pre-Refunded, 7.50%, 04/01/16	5,408,065
36,710,000	Series A, Pre-Refunded, 7.00%, 04/01/18	40,869,243
8,380,000	Series A, Pre-Refunded, 6.50%, 07/15/21	9,178,949
	Plymouth County COP,	
10,000,000	Series A, 7.00%, 04/01/12	10,442,100
5,000,000	Series A, 7.00%, 04/01/22	5,201,800

		334,003,891

	MICHIGAN 2.1%	
2,445,000	dClimax-Scotts, Community Schools, 6.35%, 05/01/23	2,441,748
4,960,000	Detroit GO, Unlimited Tax, Series A, 7.875%, 04/01/08	5,284,483
10,075,000	Dexter Community Schools, Refunding, 5.70%, 05/01/14	9,601,777
	Greater Detroit Resource Recovery Authority Revenue,	
13,205,000	Series A, 9.25%, 12/13/08	14,115,749
5,000,000	Series B, 9.25%, 12/13/08	5,344,850
22,250,000	Series C, 9.25%, 12/13/08	23,784,583
4,590,000	Series E, 9.25%, 12/13/08	4,906,572
1,055,000	Series G, 8.25%, 12/13/96	1,104,859

7,200,000	Series G, 9.25%, 12/13/08	7,696,584
5,980,000	Series H, 9.25%, 12/13/08	6,392,441
	Lincoln Consolidated School District,	
3,370,000	Refunding, FGIC Insured, 5.80%, 05/01/14	3,190,885
7,055,000	Refunding, FGIC Insured, 5.85%, 05/01/18	6,825,571
2,500,000	Michigan State HDA, Limited Obligation Revenue, Fraser Woods Project, FSA Insured,	
	6.625%, 09/15/19	2,510,600
	Michigan State HDA, Rental Housing Revenue,	
5,000,000	Series A, Refunding, 6.60%, 04/01/12	5,044,450
10,000,000	Series B, Refunding, 5.70%, 04/01/12	9,330,100
3,055,000	Michigan State HFA, SFMR, Series A, 6.875%, 06/01/23	3,106,904
	Michigan State Hospital Finance Authority Revenue,	
10,000,000	Sisters of Mercy Hospital, Series 1991, Pre-Refunded, 7.375%, 02/15/11	11,368,700
8,450,000	McLaren Obligated Group, Series A, Pre-Refunded, 7.50%, 09/15/21	9,768,876
9,420,000	Monroe County PCR, Detroit Edison Co. Project, Series 1985-A, 10.50%, 12/01/16 ..	10,450,454

		142,270,186

MINNESOTA 3.1%

	Bloomington Port Authority, Tax Increment Revenue,	
795,000	Stadium Site Redevelopment Project, ETM 02/01/96, 8.00%, 02/01/96	845,681
1,020,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.25%, 02/01/97	1,105,007
1,255,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.25%, 02/01/98	1,359,592
1,515,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.25%, 02/01/99	1,641,260
1,800,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.25%, 02/01/00	1,950,012
2,115,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.25%, 02/01/01	2,291,264
41,800,000	Stadium Site Redevelopment Project, Pre-Refunded, 8.55%, 02/01/09	45,490,940
	Dakota County Housing, RDA, Limited Annual Appropriation Tax & Revenue Supported,	
485,000	Development Housing Facilities Project, 7.00%, 01/01/96	490,417
515,000	Development Housing Facilities Project, 7.25%, 01/01/97	524,584
555,000	Development Housing Facilities Project, 7.25%, 01/01/98	566,111
600,000	Development Housing Facilities Project, 7.25%, 01/01/99	611,250
645,000	Development Housing Facilities Project, 7.25%, 01/01/00	656,236
695,000	Development Housing Facilities Project, 7.25%, 01/01/01	705,126
3,930,000	Development Housing Facilities Project, 7.50%, 01/01/06	3,986,710
2,705,000	Development Housing Facilities Project, 8.00%, 01/01/07	2,807,303

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	MINNESOTA (CONT.)	
\$ 7,715,000	Dakota County Housing, RDA, MFHR, Walnut Trails Project, 9.00%, 12/01/11	\$ 7,885,193
6,845,000	Duluth Commercial Development Revenue, Duluth Radisson Hotel Project, 10.75%,	
	12/01/14.....	7,241,873
5,970,000	Minneapolis CDA, Commercial Development Revenue, WNB & Co. Project, 8.50%,	
	12/01/15.....	5,974,119
	Minneapolis CDA, Commercial Supported Development Revenue,	
2,500,000	Limited Tax, Refunding, Series 1987-3, 8.625%, 12/01/27	2,656,300
1,000,000	Refunding, Series 1987-1, 8.625%, 12/01/12	1,062,520
	Minneapolis CDA & St. Paul Housing and RDA,	
10,000	Homeownership Mortgage Revenue, Joint Housing Program, FGIC Insured,	
	9.875%, 12/01/15.....	10,030
8,189,000	Homeownership Mortgage Revenue, Joint Housing Program, Phase II, FGIC	
	Insured, 7.875%, 07/01/17.....	8,480,856
	Minnesota State HFA, SFM,	
1,500,000	Series B, Refunding, 6.25%, 08/01/22	1,466,760
4,000,000	Series C, 5.60%, 01/01/17	3,664,200
3,865,000	Series D-1, 6.45%, 07/01/11	3,930,048
1,540,000	Series D-1, 6.50%, 01/01/17	1,567,058
2,300,000	Series F, 6.30%, 07/01/25	2,223,732
11,500,000	Mnetonka MFR, Rental Housing, Ridgpointe Housing Project, Phase II, Mandatory	
	Put 10/01/96, 8.00%, 05/15/22.....	11,347,855
1,500,000	Red Wing Housing, RDA, Jordan Tower II Project, 7.00%, 01/01/19	1,551,885
14,275,000	Roseville MFR, Rental Housing, Rosepointe No. 1 Project, Mandatory Put 10/01/96,	
	8.00%, 10/01/18.....	14,703,250
6,000,000	St. Louis Park EDA, Tax Increment Revenue, Refunding, FGIC Insured, Pre-Refunded,	
	8.40%, 09/01/09.....	7,225,920
	St. Paul Port Authority,	
4,315,000	Energy Park, Tax Increment Revenue, Refunding, Pre-Refunded, 8.00%,	
	12/01/07.....	4,841,473
685,000	Housing & Redevelopment, MFR Rental Housing, Series B, 7.00%, 09/01/97 ...	665,258

980,000	Housing & Redevelopment, MFR Rental Housing, Series B, 7.25%, 09/01/01 ...	926,776
14,835,000	Housing & Redevelopment, MFR Rental Housing, Series B, 7.50%, 09/01/22 ...	13,252,254
385,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/96	378,286
415,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/97	402,903
445,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/98	428,878
480,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/99	459,485
515,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/00	489,904
550,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/01	520,163
595,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/02	559,705
640,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/03	599,046
685,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/04	638,221
740,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/05	686,542
795,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/06	734,675
855,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/07	787,267
915,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/08	839,696
670,000	IDR, Brown & Bigelow Co., Series 1979-2, 7.50%, 10/01/09	612,963
2,445,000	IDR, Bandana Square, Series 1989-C, 7.70%, 12/01/07	1,987,296
3,465,000	IDR, Bandana Square, Series 1989-C, 7.80%, 12/01/12	2,690,746
2,010,000	IDR, Refunding, Common Bond Fund, 8.00%, 12/01/12	1,593,528
2,000,000	IDR, Series 1990-C, 7.95%, 09/01/10	1,596,000
9,750,000	Southern Minnesota Municipal Power Agency, Power Supply System Revenue, Series A, Pre-Refunded, 8.125%, 01/01/18.....	10,994,393

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	MINNESOTA (CONT.)	
	Washington County Housing RDA,	
\$ 3,000,000	Housing Development Revenue, Orleans Apartments, Project A, 8.25%, 07/01/21	\$ 2,997,180
5,210,000	Housing Development Revenue, Raymie Johnson Apartments, 7.70%, 12/01/19	5,258,557
10,000,000	Pooled Housing & Redevelopment, 7.20%, 01/01/22	10,329,000

		211,293,287

	MISSISSIPPI .5%	
13,500,000	Jackson County PCR, Refunding, Mississippi Power Co. Project, MBIA Insured, 5.65% 11/01/23	11,986,110
	Medical Center Education Building Corp., University Revenue,	
1,330,000	Medical Center Project, 5.65%, 12/01/09	1,227,590
1,000,000	Medical Center Project, 5.80%, 12/01/14	911,650
5,000,000	Medical Center Project, 5.90%, 12/01/23	4,493,600
4,865,000	Mississippi Business Financial Corp., Water PCR, Refunding, Mississippi Power Co. Project, MBIA Insured, 5.65%, 11/01/23	4,284,946
6,500,000	Mississippi Higher Education, Student Loan Association, 6.05%, 09/01/07	6,218,875
3,235,000	Mississippi Home Corp., SFR, Refunding, Senior Series A, FGIC Insured, 9.250%, 03/01/12	3,398,917

		32,521,688

	MISSOURI 1.2%	
10,000,000	Kansas City School District Building Corp., Leasehold Revenue, Capital Improvement Project, Series A, FGIC Insured, Pre-Refunded, 7.90%, 02/01/08	11,233,400
1,810,000	Marion County Nursing Home District Revenue, Refunding, 9.00%, 08/01/03	1,904,554
	Missouri State Health & Educational Facilities Authority Revenue,	
5,000,000	Health Midwaste, Series B, MBIA Insured, 6.25%, 02/15/12	5,035,700
3,750,000	Sisters of St. Mary's Health Care Project, BIG Insured, Pre-Refunded, 7.75%, 06/01/16	4,208,775
	Moberly IDA, Hospital Revenue,	
5,090,000	Refunding, Moberly Regional Medical Center, Inc. Project, 8.625%, 03/01/02.....	5,485,798
10,460,000	Refunding, Moberly Regional Medical Center, Inc. Project, 8.75%, 03/01/16.....	11,205,589
5,310,000	Newton County IDA, Hospital Revenue, Refunding, Sale Hospital, Inc. Project, Pre-Refunded, 9.00%, 01/01/05	5,938,279
10,200,000	St. Louis County Housing Authority Development Revenue, Northland Village Apartments Project, 9.00%, 04/15/16	5,100,000
16,250,000	St. Louis County IDA, Health Facilities Revenue, Refunding & Improvement, 1st Mortgage, Normandy Osteopathic Hospitals Project, 9.125%, 08/01/13	17,224,513
5,425,000	St. Louis County, Regional Convention & Sports Complex Authority, Series B, Pre-Refunded, 7.00%, 08/15/21	6,072,148
6,000,000	St. Louis Parking Facilities Revenue, 6.625%, 12/15/21	6,010,740
3,600,000	West Plains, IDA Hospital Revenue, Ozarks Medical Center Project, Series A, 8.625%, 09/15/20	3,932,352

		83,351,848

	MONTANA .3%	
4,000,000	Forsyth County, PCR, Puget Sound Power & Light Co. Project, MBIA Insured, 5.875%, 04/01/20	3,803,520
	Forsyth PCR, Refunding, The Montana Power Co.,	
5,000,000	Colstrip Project, Series A, 6.125%, 05/01/23	4,762,850
8,300,000	Series B, 5.90%, 12/01/23	7,659,074
2,835,000	Montana State Board Housing, Refunding, SF Program, Series A, 6.50%, 12/01/22	2,798,570

		19,024,014

	NEBRASKA .1%	
6,850,000	Nebraska Investment Financial Authority, 7.00%, 11/01/09	7,178,389

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)

<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	NEVADA 2.5%	
\$17,500,000	Clark County Airport System Improvement Revenue, 8.25%, 07/01/15	\$ 19,085,325
5,165,000	Clark County HFC, MFHR, FHA Insured, 7.75%, 07/01/23	5,282,917
	Clark County IDR,	
12,500,000	Refunding, Nevada Power Co. Project, Series C, 7.20%, 10/01/22	12,811,125
17,080,000	Southwest Gas Corp., Series A, 7.30%, 09/01/27	17,550,554
16,350,000	Southwest Gas Corp., Series A, 6.50%, 12/01/33	15,257,656
30,000,000	Southwest Gas Corp., Series B, 7.50%, 09/01/32	31,084,800
	Nevada Housing Division, SF Program,	
2,350,000	Refunding, Program A-1, 6.10%, 10/01/14	2,249,514
3,900,000	Refunding, Program A-1, 6.25%, 10/01/26	3,728,088
4,780,000	Issue 1988-A, FI/GML, 8.30%, 10/01/19	4,950,120
4,340,000	Issue 1988 A-2, FI/GML, 8.375%, 10/01/19	4,510,779
10,275,000	Nevada State Municipal Bond Bank, Project No. 40-41-A, ETM 02/01/10, 6.375%, 12/01/17.....	10,560,131
11,150,000	Reno Hospital Revenue, Refunding, St. Mary's Regional Medical Center, Series A, MBIA Insured, 5.80%, 05/15/13.....	10,643,567
	Reno RDA, Tax Allocation, Downtown Redevelopment Project,	
785,000	Series A, Pre-Refunded, 10.65%, 09/01/01	872,142
865,000	Series A, Pre-Refunded, 10.65%, 09/01/02	961,023
950,000	Series A, Pre-Refunded, 10.65%, 09/01/03	1,055,459
1,045,000	Series A, Pre-Refunded, 10.65%, 09/01/04	1,161,006
1,150,000	Series A, Pre-Refunded, 10.65%, 09/01/05	1,277,662
2,695,000	Series C, 7.75%, 09/01/05	2,867,534
8,290,000	Series D, 7.625%, 09/01/16	8,617,206
4,565,000	Washoe County Airport Authority, Airport System Improvement Revenue, Refunding, Series B, MBIA Insured, 5.875%, 07/01/11.....	4,390,571
5,000,000	Washoe County Gas & Water Facilities Revenue, Refunding, Sierra Pacific, AMBAC Insured, 6.30%, 12/01/14.....	4,965,500
5,250,000	Washoe County Hospital Facility Revenue, Washoe Medical Center, Inc. Project, Series A, 7.50%, 06/01/16.....	5,483,205

		169,365,884

	NEW HAMPSHIRE 1.7%	
	New Hampshire Higher Education and Health Facilities Authority Revenue,	
10,000,000	Kendal at Hanover Project, 8.00%, 10/01/19	10,134,200
2,300,000	St. Joseph Hospital, 7.50%, 01/01/16	2,402,166
	New Hampshire State HFA,	
4,920,000	MFHR, Series 1, 7.10%, 01/01/14	5,076,161
4,890,000	SF Residential, Series A, 8.50%, 07/01/14	5,178,265
5,000,000	SF Residential, Series B, 5.85%, 07/01/10	4,758,900
	New Hampshire State IDA,	
12,480,000	PCR, New England Power Co., 7.80%, 04/01/16	13,286,083
6,870,000	Pollution Control Public Service Co., Project A, 7.65%, 05/01/21	7,117,664
41,250,000	Pollution Control Public Service Co., Project B, 7.50%, 05/01/21	42,747,788
7,450,000	Pollution Control Public Service Co., Project C, 7.65%, 05/01/21	7,718,573
1,820,000	Resource Recovery Revenue, SES Concord Co. Project, 8.15%, 01/01/00	1,976,993
5,000,000	Resource Recovery Revenue, SES Concord Co. Project, 8.50%, 01/01/09	5,427,850
7,500,000	New Hampshire State Turnpike System Revenue, Refunding, 6.00%, 04/01/13 ..	7,293,150

	NEW JERSEY .5%	
9,655,000	Camden County Improvement Authority, Housing Development Revenue, Chestbury Apartments Project, 8.75%, 12/15/16.....	8,689,500
1,300,000	Middlesex County Industrial PCF Authority, PCR, Amerada-Hess Corp. Project, Series 1984, 11.625%, 12/01/14.....	1,400,360

</TABLE>

The accompanying notes are an integral part of these financial statements.

33

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	NEW JERSEY (CONT.)	
\$ 4,425,000	New Jersey EDA, 1st Mortgage Gross Revenue, Mega Care, Inc. Project, Pre-Refunded, 8.625%, 08/01/07.....	\$ 5,012,065
3,700,000	New Jersey EDA, Natural Gas Facilities Revenue, New Jersey Natural Gas Co. Project, 8.50%, 06/01/18.....	3,894,435
4,000,000	New Jersey Health Care Facilities, Financing Authority Revenue, Cathedral Health Service, 7.25%, 02/15/21	4,219,520
900,000	Community Memorial Hospital Association, Series C, 8.00%, 07/01/14	969,282
6,500,000	General Hospital Passaic, Series B, 10.375%, 07/01/14	6,979,635
4,150,000	Zurbrugg Memorial Hospital Issue, Series C, 8.50%, 07/01/12	4,357,127

		35,521,924

	NEW MEXICO 1.9%	
5,000,000	Albuquerque Airport Revenue, Series A, Pre-Refunded, 9.25%, 07/01/19	5,718,900
	Farmington PCR, Refunding, Public Service Co. of New Mexico, Series A, AMBAC Insured, 6.375%, 12/15/22.....	4,025,680
4,000,000	Southern California Edison Co., Series A, MBIA Insured, 5.875%, 06/01/23	18,771,000
20,000,000	Lordsburg PCR, Refunding, Phelps Dodge Corp. Project, 6.50%, 04/01/13	17,170,340
17,000,000	Los Alamos County, Inc., Utility System Revenue, Refunding, Series 1986-A, 7.75%, 01/01/15.....	40,863,578
38,705,000	New Mexico State Mortgage Financial Authority, SFM, Refunding, Series A, 6.85%, 07/01/10.....	22,779,855
22,050,000	University of New Mexico, University Revenue, Series 1989, Pre-Refunded, 7.90%, 06/01/19.....	19,365,210
17,000,000		-----
		128,694,563

	NEW YORK 12.5%	
	Battery Park City, Authority Revenue Bonds, Refunding, Series A, 5.80%, 11/01/22	21,904,082
24,015,000	Series 1990, Pre-Refunded, 7.70%, 05/01/15	8,285,381
7,325,000	Metropolitan Transportation Authority Revenue, Service Contract Transportation Facilities, Series 4, Pre-Refunded, 7.875%, 07/01/17.....	14,774,063
12,750,000	Transit Facilities Obligation, Refunding, 7.00%, 07/01/09	3,089,400
3,000,000	Transportation Facilities, Refunding, Series M, 6.00%, 07/01/14	16,980,643
18,210,000	New Rochelle IDA, Civic Facilities Revenue, College of New Rochelle Project, 6.625%, 07/01/12.....	1,224,868
1,245,000	New York City GO, Refunding, Series 1993-G, 5.50%, 08/01/05	6,512,496
6,900,000	Refunding, Series 1993-G, 5.60%, 08/01/06	3,307,010
3,500,000	Refunding, Series 1993-G, 5.70%, 08/01/08	2,160,988
2,300,000	Series 1986-D, 8.50%, 08/01/16	103,114
95,000	Series 1986-D, Pre-Refunded, 8.50%, 11/01/12	1,334,426
1,180,000	Series 1986-D, Pre-Refunded, 8.50%, 08/01/16	1,879,984
1,705,000	Series 1987-A, Pre-Refunded, 8.50%, 11/01/13	3,794,069
3,355,000	Series 1987-A, Pre-Refunded, 8.75%, 11/01/14	3,194,362
2,805,000	Series 1987-D, Pre-Refunded, 8.50%, 08/01/09	1,529,754
1,355,000	Series 1988-A, Pre-Refunded, 8.00%, 08/15/07	12,793,165
11,750,000	Series 1988-A, Pre-Refunded, 8.00%, 08/15/08	8,568,699
7,870,000	Series 1988-A, Pre-Refunded, 8.00%, 08/15/09	5,988,290
5,500,000	Series 1988-A, Pre-Refunded, 8.00%, 08/15/10	7,077,070
6,500,000	Series 1989-A, Pre-Refunded, 8.00%, 08/15/11	7,077,070
6,500,000	Series 1989-E, 6.50%, 12/01/12	2,615,846
2,610,000	Series 1990-B, 8.00%, 06/01/01	2,904,611
2,615,000	Series 1990-B, 7.50%, 10/01/11	7,570,990
7,000,000	Series 1990-B, 7.50%, 10/01/12	11,881,047
10,985,000		

</TABLE>

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>
<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	NEW YORK (CONT.)	
	New York City GO, (cont.)	
\$ 385,000	Series 1990-B, ETM 06/01/01, 8.00%, 06/01/01	\$ 448,564
1,000,000	Series 1991-A, 8.00%, 03/15/12	1,115,930
1,530,000	Series 1991-A, 8.00%, 03/15/13	1,707,373
10,000,000	Series 1991-A, 7.75%, 08/15/13	11,084,400
7,000,000	Series 1991-A, 7.75%, 08/15/14	7,759,080
3,285,000	Series 1991-A, 7.75%, 08/15/17	3,651,475
5,000	Series 1991-A, 8.00%, 08/15/20	5,647
15,000	Series 1991-A, 8.00%, 08/15/21	16,939
13,400,000	Series 1991-A, Pre-Refunded, 8.00%, 03/15/14	15,509,696
1,115,000	Series 1991-A, Pre-Refunded, 8.00%, 03/15/15	1,287,479
3,000,000	Series 1991-A, Pre-Refunded, 8.00%, 03/15/16	3,464,070
11,660,000	Series 1991-A, Pre-Refunded, 8.00%, 03/15/17	13,463,685
895,000	Series 1991-A, Pre-Refunded, 8.00%, 08/15/20	1,055,509
3,165,000	Series 1991-A, Pre-Refunded, 8.00%, 08/15/21	3,732,611
1,020,000	Series 1991-B, 8.00%, 06/01/95	1,057,893
1,435,000	Series 1991-B, 8.00%, 06/01/98	1,561,409
4,500,000	Series 1991-B, 8.25%, 06/01/02	5,134,500
10,000,000	Series 1991-B, 7.50%, 02/01/04	10,913,700
1,000,000	Series 1991-B, 8.25%, 06/01/05	1,162,360
15,000,000	Series 1991-B, 7.00%, 02/01/19	15,865,350
20,000,000	Series 1991-C, 7.00%, 08/01/18	21,534,200
1,800,000	Series 1991-D, 8.25%, 08/01/11	2,057,958
11,125,000	Series 1991-D, 8.25%, 08/01/12	12,719,323
7,750,000	Series 1991-D, 8.25%, 08/01/13	8,910,020
85,000	Series 1991-D, 8.25%, 08/01/14	97,722
4,255,000	Series 1991-D, 8.25%, 08/01/14	5,064,301
1,185,000	Series 1991-D, 8.00%, 08/01/16	1,345,105
100,000	Series 1991-D, 8.00%, 08/01/17	113,194
50,000	Series 1991-D, 8.00%, 08/01/18	56,597
30,000	Series 1991-D, 8.00%, 08/01/19	33,863
1,760,000	Series 1991-D, 8.00%, 08/01/99	1,936,616
240,000	Series 1991-D, ETM 08/01/99, 8.00%, 08/01/99	271,836
1,315,000	Series 1991-D, Pre-Refunded, 8.00%, 08/01/16	1,545,519
4,600,000	Series 1991-D, Pre-Refunded, 8.00%, 08/01/17	5,406,380
3,185,000	Series 1991-D, Pre-Refunded, 8.00%, 08/01/18	3,753,873
1,970,000	Series 1991-D, Pre-Refunded, 8.00%, 08/01/19	2,321,862
5,335,000	Series 1991-F, 8.20%, 11/15/04	6,123,513
160,000	Series 1991-F, 8.25%, 11/15/15	184,658
200,000	Series 1991-F, 8.25%, 11/15/17	230,160
1,840,000	Series 1991-F, Pre-Refunded, 8.25%, 11/15/15	2,207,080
2,300,000	Series 1991-F, Pre-Refunded, 8.25%, 11/15/17	2,758,850
7,375,000	Series 1992-A, 6.25%, 08/01/21	7,094,603
1,930,000	Series 1992-C, Sub-Series C-1, 7.00%, 08/01/17	2,078,050
5,000,000	Series 1992-D, 7.30%, 02/01/01	5,355,150
9,000,000	Series 1992-D, 7.625%, 02/01/15	10,038,060
5,000,000	Series 1992-D, 7.50%, 02/01/16	5,538,350
5,000,000	Series 1992-D, Pre-Refunded, 7.50%, 02/01/17	5,538,350
320,000	Series 1993-A, Pre-Refunded, 8.00%, 03/15/13	370,381
1,145,000	Series 1993-B, 8.50%, 08/01/09	1,275,450
3,815,000	Series 1993-B, 5.75%, 08/15/09	3,575,113
8,910,000	Series 1993-B, 5.750%, 08/15/15	8,144,542
5,900,000	Series 1993-D, 6.00%, 08/01/06	5,749,845
2,175,000	Series 1993-D, 5.75%, 08/01/15	1,988,298

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>
<CAPTION>

FACE		VALUE
------	--	-------

<S>	<C>	
	LONG TERM INVESTMENTS (CONT.)	
	NEW YORK (CONT.)	
	New York City GO, (cont.)	
\$ 1,500,000	Series 1993-D, 5.75%, 08/01/16	\$ 1,368,480
6,500,000	Series 1993-E, 5.60%, 08/01/06	6,141,590
6,950,000	Series 1993-E, 5.625%, 08/01/07	6,532,166
2,445,000	Series 1993-F, 5.50%, 08/01/05	2,307,689
1,750,000	Series 1993-G, 5.70%, 08/01/09	1,631,683
11,750,000	Series 1994-H, Sub-Series H-1, 6.125%, 08/01/09	11,436,980
	New York City Health & Hospital Authority Local Government Revenue,	
5,010,000	Series A, 6.00%, 02/15/07	4,870,271
17,735,000	Series A, 6.30%, 02/15/20	17,335,253
	New York City Municipal Water Finance Authority, Water & Sewer System Revenue,	
11,140,000	Series 1986-B, Pre-Refunded, 7.875%, 06/15/16	12,113,747
8,500,000	Series 1987-A, Pre-Refunded, 9.00%, 06/15/17	9,697,310
9,685,000	Series 1988-A, Pre-Refunded, 7.00%, 06/15/18	10,447,306
2,965,000	Series 1989-B, Pre-Refunded, 7.00%, 06/15/19	3,230,397
10,000,000	Series 1991-A, 7.00%, 06/15/15	10,528,900
40,000,000	Series 1991-C, Pre-Refunded, 7.75%, 06/15/20	46,540,000
5,100,000	Series 1992-A, 7.10%, 06/15/12	5,435,376
	New York State Dormitory Authority Revenue,	
26,930,000	City University System Consolidated, Series A, Pre-Refunded, 7.625%, 07/01/20.....	30,874,706
31,200,000	City University System Consolidated, Series F, Pre-Refunded, 7.875%, 07/01/17	36,177,648
3,085,000	Community Colleges, Series A, 5.625%, 07/01/14	2,761,538
4,060,000	Court Facilities Lease, Series A, 5.70%, 05/15/22	3,605,402
2,000,000	Crossover, Refunding, City University, Series D, 5.75%, 07/01/12	1,847,280
2,225,000	Crossover, Refunding, City University, Series E, 5.75%, 07/01/11	2,064,578
500,000	New York State Department of Health, 5.50%, 07/01/23	431,465
42,300,000	State University Educational Facilities, Series A, 5.875%, 05/15/17	39,163,878
22,750,000	State University Educational Facilities, Series A, Pre-Refunded, 7.70%, 05/15/12	26,120,640
8,870,000	State University Educational Facilities, Series A, Pre-Refunded, 7.25%, 05/15/18	10,105,148
1,130,000	State University Educational Facilities, Series A, Pre-Refunded, 7.25%, 05/15/18	1,287,353
4,240,000	State University Educational Facilities, Series B, Refunding, 7.375%, 05/15/14...	4,583,694
2,000,000	State University Educational Facilities, Series B, Refunding, 7.00%, 05/15/16....	2,099,900
3,540,000	State University Educational Facilities, Series B, Refunding, Pre-Refunded, 7.375%, 05/15/14	4,005,439
21,310,000	State University Educational Facilities, Series B, Refunding, Pre-Refunded, 7.25%, 05/15/1.....	23,975,242
2,375,000	State University Educational Facilities, Series B, Refunding, Pre-Refunded, 7.25%, 05/15/15.....	2,672,041
	New York State Energy Research & Development Authority, Electric Facilities Revenue,	
5,000,000	Consolidated Edison Co., N.Y., Inc., Project B, 9.25%, 09/15/22	5,642,350
17,500,000	Long Island Light, Series A, 7.15%, 06/01/20	17,888,850
1,500,000	Long Island Light, Series A, 7.15%, 02/01/22	1,533,330
	New York State Housing Finance Agency Service Contract Revenue,	
12,735,000	Refunding, Pre-Refunded, 7.80%, 09/15/20	14,803,673
15,000,000	Refunding, Series C, 6.125%, 03/15/20	14,173,350
	New York State Local Government Assistance Corp.,	
6,000,000	dSeries A, 6.50%, 04/01/20	6,080,340
10,000,000	Series A, Pre-Refunded, 7.125%, 04/01/21	11,332,200
15,740,000	Series C, 6.25%, 04/01/18	15,738,741
7,215,000	dNew York State Medical Care Facilities Financial Hospital & Nursing Home, FSA Mortgage Insured, 6.50%, 02/15/34.....	7,143,066

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	NEW YORK (CONT.)	
	New York State Medical Care Facilities Financial Mortgage Project,	
\$ 7,085,000	Series A, 5.65%, 08/15/13	\$ 6,566,874
1,750,000	Series A, 5.90%, 08/15/33	1,612,888
	New York State Mortgage Agency Revenue, Homeowner Mortgage,	
4,135,000	Series C-1, 5.65%, 04/01/15	3,806,764
5,000,000	Series C-2, 5.60%, 04/01/15	4,437,000
5,000,000	Warren & Washington Counties IDAR, Refunding, Adirondack Resource Recovery	

	Project, Series A, 7.90%, 12/15/07.....	4,625,000

		848,745,446

	NORTH CAROLINA 3.5%	
	North Carolina Eastern Municipal Power Agency, Power System Revenue,	
60,480,000	Refunding, Series 1986-A, Pre-Refunded, 7.75%, 01/01/15	65,511,331
5,705,000	Refunding, Series 1987-A, Pre-Refunded, 7.50%, 01/01/15	6,221,873
18,645,000	Refunding, Series 1988-A, Pre-Refunded, 8.00%, 01/01/21	20,947,471
1,355,000	Refunding, Series 1988-A, Pre-Refunded, 8.00%, 01/01/21	1,522,329
21,500,000	Refunding, Series 1991-A, 6.50%, 01/01/17	21,271,455
6,875,000	Refunding, Series 1993-B, 6.25%, 01/01/12	6,639,394
39,030,000	Refunding, Series 1993-B, 6.25%, 01/01/23	37,813,825
4,000,000	Refunding, Series 1993-B, FGIC Insured, 6.25%, 01/01/23	3,952,280
2,000,000	Series 1993-C, 5.50%, 01/01/07	1,906,920
15,960,000	Series 1993-G, 5.875%, 01/01/14	14,793,643
19,220,000	Series 1993-G, 5.75%, 12/01/16	17,440,420
7,000,000	North Carolina Medical Care Commission Health Care Facilities, 1st Mortgage	
	Revenue, Southminster Project, 10.375%, 10/01/15.....	7,399,980
	North Carolina Municipal Power Agency No. 1, Catawba Electric Revenue,	
14,790,000	Refunding, Series 1982, 6.25%, 01/01/17	14,524,963
10,000,000	Refunding, Series 1985-B, Pre-Refunded, 8.50%, 01/01/17	10,852,000
5,000,000	Wake County IPC, Financing Authority Revenue, Carolina Power & Light, 6.90%,	
	04/01/09.....	5,293,600

		236,091,484

	NORTH DAKOTA .9%	
7,750,000	Dickinson Health Care Facilities Revenue, BHS Long-Term Care, Inc., 7.625%,	
	02/15/20.....	8,289,555
477,000	Ellendale MFHR, Ellendale Manor Apartments Project, 9.75%, 07/01/16	495,808
	Mercer County PCR,	
3,695,000	Basin Electric Power Corp., Series 1984-A, 7.70%, 01/01/19	3,896,710
15,065,000	Basin Electric Power Corp., Series 1984-B, 8.125%, 01/01/19	15,986,828
20,260,000	Basin Electric Power Corp., Series 1984-D, 8.125%, 01/01/19	21,479,854
12,010,000	Basin Electric Power Corp., Series 1984-E, 7.00%, 01/01/19	12,520,425
908,000	Wahpeton MFHR, Evergreen Apartments Project, 9.75%, 07/01/16	943,802

		63,612,982

	OHIO 1.2%	
6,740,000	Franklin County Hospital Facility Mortgage Revenue, Refunding, Presbyterian	
	Retirement Services, Series 1987-A, 9.00%, 07/01/10.....	6,891,111
2,940,000	Franklin County Nursing Home, 1st Mortgage Revenue, Volunteers of America Care	
	Facilities Project, 8.75%, 11/01/18.....	2,975,986
	Montgomery County Health Systems Revenue,	
3,100,000	Franciscan, Series B-2, 8.10%, 07/01/01	3,290,650
12,000,000	Franciscan, Series B-2, 8.10%, 07/01/18	12,935,760
1,680,000	Muskingum County Hospital Facilities Revenue, Care One Health System, Bethesda	
	Hospital, 8.00%, 12/01/16.....	1,686,182
1,500,000	Muskingum County Revenue, Refunding, Franciscan Health Advisory Service, Good	
	Samaritan & Holy Family Hospital Project, 7.50%, 03/01/12.....	1,576,785

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE		VALUE
AMOUNT		(NOTE 1)

<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	OHIO (CONT.)	
	Ohio State Air Quality Development Authority Revenue,	
\$ 6,325,000	Collateral Pollution Toledo Edison, Series B, 8.00%, 05/15/19	\$ 6,811,962
10,000,000	Dayton Power & Light Co. Project, 9.50%, 12/01/15	10,927,400
1,785,000	Ohio State EDR, Good Samaritan Medical Center, Series 1990-3, 7.875%, 12/01/10	1,884,246
3,250,000	Ohio State Water Development Authority Revenue, Refunding, Water Development	
	Dayton Power, Series A, 6.40%, 08/15/27.....	3,249,578
	Ohio State Water Development Facilities Authority, PCR,	
4,000,000	Cleveland Electric Illumination Co. Project, Series A-1, 9.75%, 11/01/22	4,398,360
10,000,000	Cleveland Electric Illumination Co. Project, Series A-2, 9.75%, 11/01/22	10,979,600
2,375,000	Duquesne Light Co., Perry Nuclear Station Project, Series 1985-A, 11.125%,	
	02/01/15.....	2,546,784
10,000,000	Toledo Edison, Series A, 8.00%, 05/15/19	10,811,300

	OKLAHOMA 1.6%	
970,000	Canadian County HFA, MFHR, Heritage Park Apartment Project, 9.00%, 02/01/02	891,643
	Canadian County HFA, SFMR,	
2,315,000	Series 1990-A, 7.70%, 09/01/05	2,398,919
4,830,000	Series 1990-A, 7.80%, 09/01/12	5,011,125
6,000,000	Jackson County Memorial Hospital Authority Revenue, Refunding, Jackson Memorial Hospital Project, 9.00%, 08/01/15	6,326,460
	Oklahoma State Municipal Power Authority, Power Supply System Revenue,	
7,000,000	Series A, Pre-Refunded, 8.25%, 01/01/23	7,562,940
20,000,000	Series B, Pre-Refunded, 8.25%, 01/01/23	21,608,400
	Oklahoma State Turnpike System Authority,	
610,000	1st Senior Revenue, 7.875%, 01/01/21	674,196
19,090,000	1st Senior Revenue, Pre-Refunded, 7.875%, 01/01/21	21,644,815
2,755,000	Tulsa County Home Financial Authority, MFHR, Breckenridge Apartments Project, Series A, FGIC Insured, 6.45%, 10/01/34.....	2,715,824
790,000	Tulsa County Home Financial Authority, Mortgage Revenue, Series D, GNMA Insured, 6.95%, 12/01/22.....	815,912
11,000,000	Tulsa County Municipal Airport Revenue, American Airlines, Inc., 7.375%, 12/01/20.....	11,099,660
	Tulsa County Parking Authority,	
3,000,000	Series B, 6.90%, 12/01/07	3,181,590
5,500,000	Series B, 7.00%, 12/01/14	5,835,060
	Tulsa County Public Facilities Authority,	
2,000,000	Recreation Facility Revenue, Pre-Refunded, 8.875%, 02/01/03	2,306,740
2,000,000	Recreation Facility Revenue, Pre-Refunded, 9.00%, 02/01/08	2,315,180
2,740,000	Tulsa Housing Assistance Corp., 1st Lien Revenue, Refunding, 6.80%, 07/01/11	2,784,141
2,000,000	Tulsa Industrial Authority Hospital Revenue, St. John Medical Center Project, Series A, 6.25%, 02/15/14.....	1,944,540
2,450,000	Tulsa Industrial Authority, MFHR, Country Club Woodland Hills, GNMA Mortgage Backed Securities, 9.375%, 12/01/25.....	2,626,155
4,000,000	Tulsa Municipal Airport Revenue, American Airlines-American Corp., 7.35%, 12/01/11.....	4,067,200

		105,810,500

	PENNSYLVANIA 5.3%	
	Beaver County IDA, PCR,	
9,500,000	Collateralized, Cleveland Electric Co., Illuminating Co., 10.50%, 09/01/15	10,231,405
2,850,000	Ohio Edison Co., Beaver Valley Project, Series A, 10.50%, 10/01/15	3,117,957
	Cambria County HDA, Hospital Revenue, Conemaugh Valley Memorial Hospital,	
5,000,000	Refunding, Series A, Pre-Refunded, 10.125%, 07/01/18	5,451,650
9,600,000	Refunding, Series B, 6.30%, 07/01/08	9,728,256
10,740,000	Refunding, Series B, 6.375%, 07/01/18	10,627,874
3,000,000	Refunding, Series B, Pre-Refunded, 8.875%, 07/01/18	3,482,070

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	PENNSYLVANIA (CONT.)	
	Delaware County IDAR, Refunding,	
\$ 6,500,000	Philadelphia Electric, Series 1991, 7.375%, 04/01/21	\$ 6,816,615
41,300,000	Resource Recovery Project, Series A, 8.10%, 12/01/13	44,395,022
3,030,000	Fayette County Hospital Authority Revenue, Uniontown Hospital Project, 9.75%, 07/01/15.....	3,231,980
22,500,000	Lancaster County Solid Waste Management Authority, Resource Recovery System Revenue, Series A, 8.50%, 12/15/10.....	25,301,250
	Montgomery County Higher Education and Health Authority, Hospital Revenue,	
5,150,000	Frankford Hospital, 7.875%, 01/01/19	5,313,255
5,500,000	Jeanes Health System Project, Pre-Refunded, 8.75%, 07/01/20	6,602,915
5,000,000	Montgomery County IDA, PCR, Philadelphia Electric Co., Series 1986-A, 8.875%, 06/01/16.....	5,435,400
	Pennsylvania Intergovernmental Cooperative Authority, Special Tax Revenue,	
7,325,000	City of Philadelphia, Funding Program, Pre-Refunded, 6.80%, 06/15/12	8,015,748
14,575,000	City of Philadelphia, Funding Program, Pre-Refunded, 6.80%, 06/15/22	15,949,423
30,000,000	Pennsylvania State Financial Authority Revenue, Refunding, Municipal Capital Improvements Program, 6.60%, 11/01/09.....	30,336,300
	Pennsylvania State HFA,	
10,225,000	Refunding, Rental Housing, 5.75%, 07/01/14	9,553,933
10,590,000	Refunding, Rental Housing, FGIC Insured, 6.40%, 07/01/12	10,698,971
4,200,000	SFM, Series 1991, 7.15%, 04/01/15	4,306,134

2,000,000	Pennsylvania State Higher Educational Facilities Authority, College and University Revenues, Lycoming College, Pre-Refunded, 8.375%, 10/01/18	2,293,260
4,445,000	Pennsylvania State Pooled Finance Authority, Lease Revenue, Capital Improvement, Series B, MBIA Insured, 8.00%, 11/01/09	4,671,784
26,000,000	Philadelphia City GO, Refunding, Series 1986-A, Pre-Refunded, 7.625%, 08/01/16	28,178,020
1,000,000	Series 1987-A, 11.50%, 08/01/97	1,160,990
1,545,000	Series 1987-A, 11.50%, 08/01/98	1,842,490
2,400,000	Series 1987-A, 11.50%, 08/01/99	2,933,232
1,000,000	Series 1987-A, 11.50%, 08/01/00	1,248,140
3,000,000	Series 1993-A, FGIC Insured, 5.10%, 05/15/02	2,970,780
2,850,000	Philadelphia Gas Works Revenue, Series 13, Pre-Refunded, 7.70%, 06/15/21	3,308,252
3,950,000	Philadelphia Gas Works Revenue, Series A, 6.375%, 07/01/26	3,836,714
14,240,000	Philadelphia Hospital & Higher Education Facilities Authority, Hospital Revenue, Albert Einstein Medical Center, 7.50%, 04/01/99	15,146,803
8,000,000	Nazareth Hospital, 9.375%, 07/01/15	8,246,480
840,000	Philadelphia Housing RDAR, Sub-Series 2-A, 8.375%, 02/01/14	852,155
4,140,000	Sub-Series 2-B, 8.625%, 08/01/26	4,200,196
1,000,000	Philadelphia Municipal Authority, Gas Works Lease Revenue, 7.50%, 05/01/01	1,085,910
10,960,000	Philadelphia Water & Sewer Revenue, Series 10, ETM 09/01/04, 7.35%, 09/01/04	12,136,337
20,180,000	Series 16, 7.50%, 08/01/10	21,861,398
10,450,000	Series 16, CGIC Insured, Pre-Refunded, 7.00%, 08/01/21	11,715,286
9,500,000	Philadelphia Water & Wastewater Revenue, Refunding, 5.50%, 06/15/06	9,110,405
3,485,000	Refunding, 5.75%, 06/15/13	3,165,669
410,000	Warrington Township Municipal Authority, Water and Sewer Revenue, Bucks County, Series A, 10.50%, 12/01/10.....	438,499
3,000,000	Westmoreland County IDAR, Refunding, Citizens General Hospital Project, Series A, 8.25%, 07/01/13.....	3,221,880

		362,220,838

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	PUERTO RICO .6%	
\$ 3,200,000	Puerto Rico Commonwealth Urban Renewal & Housing Corp., Refunding, 7.875%, 10/01/04.....	\$ 3,574,656
4,000,000	Puerto Rico Electric Power Authority, Power Revenue, Refunding, Series 1987-K, Pre-Refunded, 9.375%, 07/01/17.....	4,626,040
2,000,000	Series 1988-M, Pre-Refunded, 8.00%, 07/01/08	2,268,600
5,000,000	Puerto Rico Municipal Finance Agency, Series 1988-A, 8.25%, 07/01/08	5,561,850
26,925,000	Puerto Rico PBA, Guaranteed, Public Education and Health Facilities, Refunding, Series M, 5.75%, 07/01/15.....	24,997,170

		41,028,316

	RHODE ISLAND 1.5%	
15,000,000	Rhode Island Depositors Economic Protection Corp., Special Obligation, Series A, 5.75%, 08/01/14	13,997,100
6,500,000	Series A, Pre-Refunded, 6.90%, 08/01/13	7,247,435
12,700,000	Series A, Pre-Refunded, 6.95%, 08/01/22	14,202,283
7,000,000	Series B, 6.00%, 08/01/17	6,671,000
1,925,000	Rhode Island Housing and Mortgage Finance Corp., Homeownership Opportunity, Series 2, 7.75%, 04/01/22	2,044,850
9,500,000	Series 9-C, 5.75%, 04/01/17	8,751,685
20,200,000	Series 10-A, 6.50%, 10/01/22	20,304,434
13,085,000	Series 10-A, 6.50%, 04/01/27	13,152,649
3,000,000	Rhode Island State Health & Educational Building Corp. Revenue, Health Facilities Tockwotton Home, 7.25%, 04/15/17	3,108,390
9,000,000	Higher Educational Facilities, Project J, 5.875%, 04/01/20	8,341,290
970,000	Roger William Realty, FHA Insured, 7.50%, 08/01/29	1,003,115
2,320,000	St. Antoine Residence, 6.70%, 11/15/12	2,290,884
2,750,000	St. Antoine Residence, 6.75%, 11/15/18	2,711,033

		103,826,148

	SOUTH CAROLINA 1.5%	

24,000,000	Charleston County Resource Recovery Revenue, Foster Wheeler Charleston Resource Recovery Inc. Project, Series A, 9.25%, 01/01/10.....	27,000,000
	North Charleston Redevelopment Commission, Housing Development Revenue, Phoenix Park Project, Series A, 9.00%, 01/01/97	151,500
505,000	Phoenix Park Project, Series A, 9.50%, 01/01/17	2,452,500
8,175,000	Piedmont Municipal Power Agency, South Carolina Electric Revenue, Refunding, 7.25%, 01/01/22	6,298,140
6,000,000	Refunding, 6.375%, 01/01/25	5,979,300
6,000,000	Refunding, Series A, 5.75%, 01/01/24	6,989,183
7,750,000	South Carolina State Public Service Authority Revenue, Refunding, Electric System & Expansion, Series A, 7.875%, 07/01/21	16,801,663
15,805,000	Electric System & Expansion, Series A, Pre-Refunded, 7.875%, 07/01/21	4,491,632
4,175,000	Santee Cooper Electric System & Expansion, Series B, Pre-Refunded, 6.50%, 07/01/26.....	11,560,254
10,600,000	York County Public Facilities Corp., COP, Justice Center, 7.50%, 06/01/11	11,793,203
10,240,000	Justice Center, Pre-Refunded, 7.375%, 06/01/04	5,149,575
4,500,000		-----
		98,666,950

	SOUTH DAKOTA .5%	
5,000,000	Lawrence County PCR, Refunding, Black Hills Power & Light Co. Project, 6.70%, 06/01/10.....	5,169,700
	South Dakota State HDA, Homeownership Mortgage, Series A, 6.00%, 05/01/21	1,192,288
1,250,000	Series A, 7.15%, 05/01/27	10,976,750
10,580,000	Series B, 5.80%, 05/01/14	4,377,650
4,650,000		

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

	FACE AMOUNT		VALUE (NOTE 1)
<S>		<C>	<C>
		LONG TERM INVESTMENTS (CONT.)	
		SOUTH DAKOTA (CONT.)	
		South Dakota State HDA, Homeownership Mortgage, (cont.)	
\$	3,250,000	Series B, 7.10%, 05/01/17	\$ 3,372,135
	4,350,000	Series C, 5.70%, 05/01/13	4,067,816
	1,750,000	Series C, 5.75%, 05/01/17	1,625,908
	3,480,000	dSeries D, 6.65%, 05/01/14	3,468,516

			34,250,763

		TENNESSEE .8%	
	6,690,000	Gatlinburg COP, Gatlinburg Convention Center, Inc., Pre-Refunded, 9.25%, 12/01/12	7,829,842
	4,870,000	Knox County Health, Educational & Housing Facilities Board, MFHR, GNMA Collateralized, East Towne Village Project, 8.20%, 07/01/28.....	5,014,396
	14,690,000	Memphis-Shelby County Airport Authority, Special Facilities & Project Revenue, Federal Express Corp., 7.875%, 09/01/09	16,071,300
	6,520,000	Federal Express Corp., 6.75%, 09/01/12	6,465,036
	1,990,000	Mount Pleasant IDR, PCR, Stauffer Chemical Co. Project, 8.00%, 12/01/12	2,256,501
	5,000,000	Nashville & Davidson County Revenue, IDB, Refunding & Improvement, Osco Treatment, Inc., 6.00%, 05/01/03.....	4,868,150
	7,405,000	Tennessee HDA, Homeownership Program, Series P, 7.70%, 07/01/16	7,816,496
	2,000,000	Tennessee HDA, Mortgage Finance, Refunding, Series A, 5.90%, 07/01/18	1,834,120
	2,650,000	Tennessee State Local Development Authority Revenue, Refunding, State Loan Program, Series A, 5.65%, 03/01/07.....	2,479,844

			54,635,685

		TEXAS 8.0%	
	18,100,000	Austin Combined Utility System Revenue, Series A, Pre-Refunded, 8.00%, 11/15/16	21,015,548
	85,000	Austin HFC, SFMR, Series 1984, 11.25%, 02/01/09	88,153
	1,750,000	Bexar County HFC, MFHR, Sunpark Apartments Project, 6.875%, 12/01/12	1,802,325
	6,100,000	Brazos County Health Facilities Development Corp., Hospital Revenue, St. Joseph Hospital Project, Pre-Refunded, 10.25%, 10/01/15.....	7,235,576
	9,000,000	Brazos County Higher Education Authority, Student Loan Revenue, Refunding, Series C-2, 5.875%, 06/01/04.....	8,828,910
	2,500,000	Brazos River Authority, Collateralized, PCR, Texas Utilities Electric Co. Project, Series 1987-A, 9.875%, 10/01/17	2,844,750
	17,550,000	Series 1988-A, 9.25%, 03/01/18	19,761,476
	15,000,000	Series 1989-A, 8.25%, 01/01/19	16,412,100
	410,000	Brazos River Authority, Johnson County, Surface Water & Treatment Revenue, 8.40%, 09/01/95	431,566

445,000	Surface Water & Treatment Revenue, 8.60%, 09/01/96	479,621
480,000	Surface Water & Treatment Revenue, 8.75%, 09/01/97	516,178
520,000	Surface Water & Treatment Revenue, 8.90%, 09/01/98	557,939
560,000	Surface Water & Treatment Revenue, 9.00%, 09/01/99	598,914
605,000	Surface Water & Treatment Revenue, 9.00%, 09/01/00	645,015
655,000	Surface Water & Treatment Revenue, 9.00%, 09/01/01	696,861
705,000	Surface Water & Treatment Revenue, 9.10%, 09/01/02	749,993
765,000	Surface Water & Treatment Revenue, 9.10%, 09/01/03	812,124
825,000	Surface Water & Treatment Revenue, 9.10%, 09/01/04	875,820
890,000	Surface Water & Treatment Revenue, 9.20%, 09/01/05	945,732
960,000	Surface Water & Treatment Revenue, 9.20%, 09/01/06	1,020,115
1,040,000	Surface Water & Treatment Revenue, 9.20%, 09/01/07	1,102,826
1,120,000	Surface Water & Treatment Revenue, 9.20%, 09/01/08	1,187,659
1,210,000	Surface Water & Treatment Revenue, 9.25%, 09/01/09	1,281,705
1,310,000	Surface Water & Treatment Revenue, 9.25%, 09/01/10	1,387,631
1,415,000	Surface Water & Treatment Revenue, 9.25%, 09/01/11	1,497,296
1,525,000	Surface Water & Treatment Revenue, 9.25%, 09/01/12	1,613,694
1,650,000	Surface Water & Treatment Revenue, 9.25%, 09/01/13	1,745,964

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	TEXAS (CONT.)	
	Brazos River Authority, Johnson County, (cont.)	
\$ 1,780,000	Surface Water & Treatment Revenue, 9.25%, 09/01/14	\$ 1,883,524
1,670,000	Surface Water & Treatment Revenue, 9.25%, 09/01/15	1,767,127
750,000	Brownsville Utilities System Revenue, Refunding, Series 1984, 11.625%, 09/01/14	792,345
15,745,000	Dallas County Flood Control District No. 1, Refunding, Mandatory Put 04/01/97, 9.25%, 04/01/10	16,470,529
3,470,000	Dallas County Flood Control District No. 1, Refunding, Pre-Refunded, 9.25%, 04/01/10	3,885,463
99,000,000	Dallas-Fort Worth, International Airport Facilities, Improvement Corp. Revenue, American Airlines, Inc., 8.00%, 11/01/24	104,282,640
30,000	Denton County HFC, SFMR, 11.75%, 01/01/11	30,473
7,255,000	El Paso HFC, SFMR, Series 1991-A, 8.75%, 10/01/11	7,439,567
2,050,000	Grand Prairie HFC, SFMR, 10.75%, 09/01/14	2,096,781
43,010,000	Harris County Hospital District Mortgage Revenue, Refunding, Pre-Refunded, 8.50%, 04/01/05	46,917,459
20,000,000	Harris County IDR, Marine Terminal Revenue, Refunding, 6.95%, 02/01/22	20,595,400
	Harris County Toll Road, Multiple Mode, Senior Lien Revenue, Refunding, Series 1987, Pre-Refunded, 8.70%, 08/15/17	2,403,996
2,100,000	Series B, Pre-Refunded, 8.625%, 08/15/07	10,282,590
9,000,000	Series B, Pre-Refunded, 8.70%, 08/18/17	21,418,460
18,710,000	Series C, Pre-Refunded, 8.125%, 08/15/17	3,980,900
3,500,000	Series D, Pre-Refunded, 8.25%, 08/15/07	4,603,240
4,000,000	Series D, Pre-Refunded, 8.30%, 08/15/17	5,763,550
5,000,000	Houston HFC, SFMR, Refunding, Series A, FSA Insured, 5.95%, 12/01/10	9,072,503
9,370,000	dHouston Water & Sewer System Revenue, Refunding, Series B, 6.375%, 12/01/14	20,820,660
21,000,000	Matagorda County Navigation District No. 1, PCR, Collateralized, Refunding, Houston Lighting & Power Co., 6.00%, 07/01/28	9,264,900
10,000,000	Houston Lighting & Power Co., Series B, 7.70%, 02/01/19	44,284,550
40,975,000	Mesquite HFC, SFMR, Series 1983, 10.75%, 09/01/14	2,035,981
2,040,000	Nueces County Hospital District Revenue, Refunding, Pre-Refunded, 9.00%, 07/01/16	5,566,500
5,000,000	Rio Grande Valley Health Facilities Development Corp., 1st Mortgage Revenue, Refunding, Golden Palms Retirement and Health Center, Pre-Refunded, 9.25%, 08/01/5	12,348,930
11,000,000	Sabine River Authority PCR, Texas Utility Electric Co. Project, Refunding, 7.75%, 04/01/16	2,749,452
2,610,000	San Antonio Water Revenue, Refunding, MBIA Insured, 6.50%, 05/15/10	5,159,550
5,000,000	Southland Oaks MUD, Contract Revenue, Pre-Refunded, 8.50%, 11/15/01	1,686,391
1,525,000	Contract Revenue, Pre-Refunded, 8.50%, 11/15/02	1,879,911
1,700,000	Contract Revenue, Pre-Refunded, 8.50%, 11/15/03	2,045,786
1,850,000	Contract Revenue, Pre-Refunded, 8.55%, 11/15/04	2,269,371
2,050,000	Contract Revenue, Pre-Refunded, 8.55%, 11/15/05	2,490,773
2,250,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/06	2,742,770
2,475,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/07	3,019,818
2,725,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/08	3,324,570
3,000,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/09	3,657,027
3,300,000	Texas Housing Agency,	

17,605,000	SFMR, Series 1986-B, 7.50%, 09/01/17	18,063,610
4,620,000	SFMR, Series 1987-B, 8.20%, 03/01/16	4,859,039
	Texas Housing Agency, Residential Development Mortgage Revenue,	
2,270,000	Series D, 8.35%, 01/01/08	2,363,138
4,575,000	Series D, 8.35%, 07/01/08	4,762,712
18,000,000	Texas National Research Lab Community, Financing Corp., Lease Revenue, 7.10%, 12/01/21	18,205,020

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<CAPTION>		VALUE
FACE		(NOTE 1)
AMOUNT		
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	TEXAS (CONT.)	
\$ 4,160,000	Texas State Department Housing and Community Affairs, MFR, Mortgage National Center Housing Management Project, FSA Insured, 5.80%, 01/01/24	\$ 3,783,853
2,500,000	Texas Water Resources Finance Authority Revenue, 7.625%, 08/15/08	2,694,050
	Western Oaks MUD,	
1,675,000	Contract Revenue, 8.60%, 11/15/05	1,856,218
1,825,000	Contract Revenue, 8.60%, 11/15/06	2,022,447
615,000	Contract Revenue, Pre-Refunded, 8.40%, 11/15/01	678,634
500,000	Contract Revenue, Pre-Refunded, 8.45%, 11/15/02	552,325
2,025,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/07	2,244,085
2,225,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/08	2,465,723
2,450,000	Contract Revenue, Pre-Refunded, 8.60%, 11/15/09	2,715,066

		552,434,898

	U.S. TERRITORIES	
870,000	Virgin Islands HFA, HMR, Series B, GNMA Mortgage Backed Securities, 8.10%, 12/01/18	907,575

	UTAH 1.9%	
	Intermountain Power Agency, Power Supply Revenue, Refunding,	
34,805,000	Series B, 7.75%, 07/01/20	38,160,898
2,000,000	Series G, 7.25%, 07/01/17	2,115,160
4,000,000	Series I, 6.00%, 07/01/21	3,905,400
	Intermountain Power Agency, Special Obligation,	
13,450,000	1st Crossover Series, 7.875%, 07/01/14	14,459,019
9,500,000	Refunding, 5th Crossover Series, 7.20%, 07/01/19	10,132,130
2,945,000	dUtah State HFA, Refunding, Series A, 6.50%, 05/01/19	2,952,186
	Utah State HFA, SFM,	
5,115,000	Refunding, Series A-C, 6.80%, 01/01/12	5,300,214
2,565,000	Series A, 8.50%, 07/01/19	2,652,620
6,575,000	Series A, 5.70%, 07/01/26	5,884,756
5,000,000	dSeries B, 6.55%, 07/01/26	5,000,000
510,000	Series C-1, 6.80%, 07/01/12	528,467
8,845,000	Series C-1, 8.375%, 07/01/19	9,064,444
2,945,000	Series D, 8.60%, 07/01/19	3,088,510
4,110,000	Series G-1, 8.10%, 07/01/16	4,237,903
2,150,000	Series F, 6.00%, 07/01/13	2,071,675
	Utah State School District Finance Cooperative Revenue, Financing Pool,	
2,450,000	Series 1988, 8.375%, 02/15/10	2,661,386
1,730,000	Series 1988, 8.375%, 02/15/10	1,879,264
1,435,000	Series 1988, 8.375%, 02/15/10	1,558,812
1,420,000	Series 1988, 8.375%, 02/15/10	1,542,518
1,340,000	Series 1988, 8.375%, 02/15/10	1,455,615
1,245,000	Series 1988, 8.375%, 02/15/10	1,352,418
1,210,000	Series 1988, 8.375%, 02/15/10	1,314,399
1,195,000	Series 1988, 8.375%, 02/15/10	1,298,105
1,190,000	Series 1988, 8.375%, 02/15/10	1,316,687
1,160,000	Series 1988, 8.375%, 02/15/10	1,260,085
1,065,000	Series 1988, 8.375%, 02/15/10	1,156,888
1,040,000	Series 1988, 8.375%, 02/15/10	1,142,762
1,030,000	Series 1988, 8.375%, 02/15/10	1,118,868
635,000	Series 1988, 8.375%, 02/15/10	685,711
530,000	Series 1988, 8.375%, 02/15/10	560,046
490,000	Series 1988, 8.375%, 02/15/10	503,524

		130,360,470

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	VIRGINIA .3%	
	Virginia State HDA, Commonwealth Mortgage,	
\$13,200,000	Series 1989-B, Sub-Series B-1, 7.75%, 07/01/17	\$13,827,000
5,120,000	dSeries 1994-C, Sub-Series C-6, 6.25%, 01/01/15	4,924,518

		18,751,518

	WASHINGTON 5.8%	
	Chelan County PUD No. 1,	
5,000,000	Chelan Hydro Consolidated System Revenue, 9.30%, 07/01/62	5,638,450
6,000,000	Chelan Hydro Consolidated System Revenue, Mandatory Put 06/01/18,	
	Pre-Refunded, 6.95%, 06/01/67.....	6,640,980
4,885,000	Chelan Hydro Consolidated System Revenue, Series E, 5.70%, 07/01/09	4,517,599
8,500,000	Clark County School District No. 37, 5.90%, 12/01/12	8,395,705
	Lewis County PUD No. 1,	
10,000,000	Cowlitz Falls Hydroelectric Revenue, 5.50%, 10/01/22	8,653,200
27,500,000	Cowlitz Falls Hydroelectric Revenue, Pre-Refunded, 7.00%, 10/01/22	30,883,600
10,215,000	dKing County School District No. 406 South Central, 6.125%, 12/01/13	10,071,377
	King County School District No. 411,	
5,000,000	Issaquah, Series A, 5.80%, 12/01/10	4,839,600
3,000,000	Issaquah, Series A, 5.85%, 12/01/11	2,900,850
4,020,000	Marysville Water & Sewer Revenue, Refunding, MBIA Insured, 6.10%, 12/01/12	3,928,183
32,480,000	Pierce County, EDC, Revenue, Refunding, Solid Waste-Steilacoom, 6.60%, 08/01/22	32,106,480
	Port Moses Lake Public Corp., Washington PCR,	
2,100,000	Union Carbide Corp., 7.50%, 08/01/04	2,181,354
1,000,000	Union Carbide Corp., 7.875%, 08/01/06	1,055,790
	Seatac GO,	
540,000	Series 1994, 5.40%, 12/01/00	539,973
635,000	Series 1994, 5.75%, 12/01/03	634,968
2,760,000	Series 1994, 6.50%, 12/01/13	2,759,807
	Snohomish County PUD No. 1, Electric Revenue, Refunding, Generation System,	
1,600,000	Series 1986-A, 5.70%, 01/01/14	1,462,080
9,365,000	Series 1986-A, Pre-Refunded, 8.00%, 01/01/15	10,309,367
7,000,000	Snohomish County USD No. 6, 6.50%, 12/01/11	7,252,840
	Washington State Health Care Facilities Authority Revenue,	
3,615,000	Heart Institute Spokane, Series A, 5.80%, 08/15/18	3,270,996
4,000,000	Refunding, Dominican Health Services, 5.75%, 06/01/13	3,666,360
9,315,000	Refunding, Northwest Hospital, AMBAC Insured, 5.75%, 11/15/23	8,413,774
4,880,000	Washington State Housing Finance Commission, MFMR, Refunding, Series A, 7.90%,	
	07/01/30	4,948,808
820,000	Washington State Housing Finance Commission, SFMR, Refunding, Mortgage Backed	
	Securities, Series B-1, 5.95%, 07/01/16	782,132
	Washington State Public Power Supply System Revenue, Nuclear Project No. 1,	
	Refunding,	
1,000,000	Series A, 5.25%, 07/01/08	892,180
18,330,000	Series A, 6.00%, 07/01/09	17,589,101
1,500,000	Series A, 7.00%, 07/01/11	1,554,375
22,400,000	Series A, 6.00%, 07/01/12	21,168,448
35,355,000	Series A, 6.05%, 07/01/12	33,240,417
23,970,000	dSeries A, 6.50%, 07/01/15	23,776,802
19,250,000	Series A, 6.00%, 07/01/17	17,951,780
10,705,000	Series A, 6.25%, 07/01/17	10,639,057
32,000,000	Series A, Pre-Refunded, 7.625%, 07/01/08	36,596,160
17,000,000	Series A, Pre-Refunded, 7.375%, 07/01/12	19,220,030
4,000,000	Series C, Pre-Refunded, 7.625%, 07/01/10	4,583,920
5,000,000	Series C, Pre-Refunded, 8.00%, 07/01/17	5,821,700

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE> <CAPTION>	FACE AMOUNT	VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	WASHINGTON (CONT.)	
\$ 1,000,000	Washington State Public Power Supply System Revenue, Nuclear Project No. 2, Refunding, Series A, MBIA Insured, 5.00%, 07/01/09.....	\$ 896,700
	Washington State Public Power Supply System Revenue, Nuclear Project No. 3, Refunding,	
13,460,000	Series 1989-B, Pre-Refunded, 7.25%, 07/01/15	15,031,724
1,260,000	Series 1990-B, Pre-Refunded, 7.50%, 07/01/18	1,432,759
12,945,000	Series B, 5.70%, 07/01/10	12,015,031
750,000	Series B, 5.625%, 07/01/12	679,095
9,500,000	Series B, 5.70%, 07/01/18	8,505,065

		397,448,617

	WEST VIRGINIA 1.0%	
1,250,000	Clarksburg Water Revenue, Pre-Refunded, 10.875%, 02/01/20	1,339,675
	New Martinsville Building Commission Revenue, City of New Martinsville Project, Series A, Pre-Refunded, 8.50%, 11/01/03	3,377,493
3,015,000	Series A, Pre-Refunded, 8.75%, 11/01/09	4,912,022
4,250,000	Taylor County PCR, Union Carbide Corp., 7.625%, 08/01/05	2,634,696
2,400,000	West Virginia State Hospital Finance Authority, Hospital Revenue, Refunding, St. Francis Hospital, Charleston, 7.75%, 08/15/13.....	5,267,430
5,400,000	West Virginia State Housing Development Fund, Housing Finance, Series D, 7.00%, 05/01/17	6,151,320
6,000,000	Series D, 7.05%, 11/01/24	9,252,900
9,000,000	West Virginia State School Building Authority Revenue, Capital Improvement, Series A, MBIA Insured, 6.625%, 07/01/22.....	12,219,530
11,750,000	West Virginia State Water Development Authority Revenue, Loan Program II, Series 1988-A, Pre-Refunded, 8.625%, 11/01/28	5,793,850
5,000,000	Loan Program II, Series 1990-A, Pre-Refunded, 7.70%, 11/01/29	15,093,155
13,085,000	Loan Program II, Series 1991-A, 7.00%, 11/01/31	5,302,300
5,180,000		-----
		71,344,371

	WISCONSIN 1.1%	
2,200,000	Janesville IDR, Simmons Manufacturing Co., 7.00%, 10/15/17	2,289,078
	Wisconsin Housing & EDA, Homeownership Revenue, Series 1, 6.75%, 09/01/15	10,439,613
10,230,000	Series 1, 6.75%, 09/01/17	3,061,470
3,000,000	Series A, 6.45%, 03/01/17	5,500,000
5,500,000	Series A, 7.10%, 03/01/23	11,799,515
11,330,000	Series B, 7.05%, 11/01/22	3,096,720
3,000,000	Wisconsin Housing & EDA, Housing Revenue, Refunding, Series C, 5.80%, 11/01/13 .	12,190,804
13,145,000	Wisconsin State Health & Educational Facilities Authority Revenue, Lindengrove, Inc. Project, 10.00%, 10/01/17.....	16,782,336
15,360,000	Wisconsin State Health Facilities Authority Revenue, Refunding, Franciscan Health Advisory, 7.80%, 03/01/14.....	7,695,556
7,400,000		-----
		72,855,092

	WYOMING .5%	
	Wyoming CDA, MF Mortgage, Series A, 6.90%, 06/01/12	1,754,822
1,715,000	Series A, 6.95%, 06/01/24	3,611,790
3,530,000	Wyoming CDA, SFM, Series A, 5.70%, 06/01/13	3,714,640
4,000,000	Series A, 5.85%, 06/01/13	5,434,325
5,750,000	Series A, 7.25%, 06/01/21	2,587,125
2,500,000		

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND
STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE> <CAPTION>	FACE AMOUNT	VALUE (NOTE 1)
<S>	<C>	<C>
	LONG TERM INVESTMENTS (CONT.)	
	WYOMING (CONT.)	
	Wyoming CDA, SFM, (cont.) Series A, 6.00%, 06/01/23	\$ 13,953,141

1,730,000	Series G, 7.375%, 06/01/17	1,804,580

		32,860,423

	TOTAL BONDS (COST \$6,295,849,964)	6,575,322,981

	fZERO COUPON BONDS 1.4%	
11,040,000	Calcasieu Parish, Memorial Hospital Service District Revenue, Lake Charles Parish Memorial Hospital Project, Series A, (original accretion rate 5.59%), 12/01/22...	5,302,512
16,000,000	Chicago Residential Mortgage Revenue, Refunding, Series B, MBIA Insured, (original accretion rate 7.30%), 10/01/09	5,382,080
1,660,000	Colorado Springs Airport Revenue, Series C, (original accretion rate 6.86%), 01/01/03	968,909
1,610,000	Series C, (original accretion rate 6.966%), 01/01/05	812,809
1,675,000	Series C, (original accretion rate 7.07%), 01/01/07	725,794
800,000	Series C, (original accretion rate 7.07%), 01/01/08	320,216
1,450,000	Series C, (original accretion rate 7.176%), 01/01/11	459,592
5,935,000	dColdwater Community Schools, MBIA Insured, (original accretion rate 6.794%), 05/01/18	1,193,529
	Jefferson County, Capital Projects Corp., Lease Revenue, Refunding,	
1,640,000	Series A, (original accretion rate 6.75%), 08/15/07	686,389
4,505,000	Series A, (original accretion rate 6.80%), 08/15/08	1,753,572
4,580,000	Series A, (original accretion rate 6.87%), 08/15/09	1,673,669
4,620,000	Series A, (original accretion rate 6.85%), 08/15/10	1,555,923
6,825,000	Series A, (original accretion rate 6.95%), 08/15/13	1,846,026
6,860,000	Series A, (original accretion rate 6.95%), 08/15/14	1,733,796
7,005,000	Series A, (original accretion rate 7.00%), 08/15/16	1,529,262
7,115,000	Series A, (original accretion rate 7.00%), 08/15/17	1,450,677
6,000,000	Harrison Community Schools, AMBAC Insured, (original accretion rate 6.90%), 05/01/20	1,115,580
	Howell Public School, Refunding,	
1,500,000	AMBAC Insured, (original accretion rate 5.75%), 05/01/12	473,880
1,120,000	AMBAC Insured, (original accretion rate 5.75%), 05/01/13	332,483
2,000,000	AMBAC Insured, (original accretion rate 5.75%), 05/01/14	556,940
2,770,000	AMBAC Insured, (original accretion rate 5.75%), 05/01/15	723,552
2,500,000	AMBAC Insured, (original accretion rate 5.75%), 05/01/16	612,575
2,250,000	Louisiana Housing Financial Agency Mortgage Revenue, Refunding, (original accretion rate 9.20%), 09/01/13	2,160,180
	Metropolitan Pier & Exposition Authority Dedicated State Tax Revenue,	
5,650,000	Expansion, Project A, FGIC Insured, (original accretion rate 6.500%), 06/15/07	4,738,768
8,500,000	Expansion, Project A, FGIC Insured, (original accretion rate 6.526%), 06/15/08	3,518,745
11,000,000	Expansion, Project A, FGIC Insured, (original accretion rate 6.677%), 06/15/09	4,240,280
8,000,000	Expansion, Project A, FGIC Insured, (original accretion rate 6.628%), 06/15/10	2,872,800
9,690,000	Expansion, Project A, FGIC Insured, (original accretion rate 6.629%), 06/15/11	3,238,398
11,800,000	Expansion, Project A, FGIC Insured, (original accretion rate 3.193%), 06/15/12	7,090,266
5,250,000	Owensboro Electric Light & Power Revenue, Series B, AMBAC Insured, (original accretion rate 6.85%), 01/01/08	2,280,968
	Shreveport Water & Sewer Revenue,	
490,000	Series B, FGIC Insured, (original accretion rate 7.05%), 12/01/07	210,636
2,530,000	Series B, FGIC Insured, (original accretion rate 7.05%), 12/01/08	1,006,358
4,080,000	Series B, FGIC Insured, (original accretion rate 7.05%), 12/01/09	1,488,098
5,630,000	Series B, FGIC Insured, (original accretion rate 7.05%), 12/01/10	1,908,062
7,000,000	Spring ISD, Refunding, FGIC Insured, Pre-Refunded, (original accretion rate 7.80%), 08/15/08	2,801,330

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

<TABLE>

<CAPTION>

FACE AMOUNT		VALUE (NOTE 1)
<S>	<C>	
	fZERO COUPON BONDS (CONT.)	
\$14,250,000	University of Illinois, University Revenues, AMBAC Insured, (original accretion rate 7.187%), 04/01/10	\$ 5,184,435
	Virginia State HDA, Commonwealth Mortgage,	
6,700,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 01/01/11	1,860,054
6,700,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 07/01/11	1,789,838
7,100,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 01/01/12	1,825,055
7,100,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 07/01/12	1,756,114
7,400,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 01/01/13	1,761,200
7,400,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 07/01/13	1,694,674
5,650,000	Series 1990-A, Sub-Series A-4, (original accretion rate 7.85%), 07/01/14	1,198,026
11,000,000	Washington State Public Power Supply System Revenue, Nuclear Project No. 2, Refunding, Series A, (original accretion rate 7.33%), 07/01/13	3,011,140

Washington State Public Power Supply System Revenue, Nuclear Project No. 3,
Refunding,

6,400,000	Series 1990-B, (original accretion rate 6.751%), 07/01/12	1,891,071
15,000,000	Series 1990-B, (original accretion rate 7.25%), 07/01/14	3,837,600
	TOTAL ZERO COUPON BONDS (COST \$91,864,416)	94,573,861
	TOTAL LONG TERM INVESTMENTS (COST \$6,387,714,380)	6,669,896,842
	SHORT TERM INVESTMENTS .2%	
580,000	Bloomington Port Authority, Minnesota, Tax Increment Revenue, Stadium Site Redevelopment Project, ETM 02/01/95, 8.00%, 02/01/95	598,321
380,000	Brazos River Authority, Texas, Johnson County, Surface Water & Treatment Revenue, 8.20%, 09/01/94 384,963	
3,700,000	eCollier County, Florida, Health Facilities Authority, Health Facilities Revenue, Moorings, Inc. Project, Weekly VRDN and Put, 3.20%, 12/01/19	3,700,000
200,000	eColorado Health Facilities Authority Revenue, Boulder Community Hospital Project, Series B, MBIA Insured, Weekly VRDN and Put, 3.15%, 10/01/14	200,000
450,000	Dakota County, Minnesota Housing & Redevelopment Authority, Limited Annual Appropriation Tax & Revenue Supported, Development Housing Facilities Project, 7.00%, 01/01/95	452,732
1,500,000	eIrving Ranch, California, Water District, Refunding, Series B, Daily VRDN and Put, 2.90%, 08/01/09	1,500,000
1,700,000	eOrange County, California, COP, Series C, FGIC Insured, Daily VRDN and Put, 2.95%, 08/01/17.....	1,700,000
6,300,000	eUtah State Board Regents Students Loan Revenue, Series B, AMBAC Insured, Weekly VRDN and Put, 3.15%, 11/01/00	6,300,000
	TOTAL SHORT TERM INVESTMENTS (COST \$14,806,200)	14,836,016
	TOTAL INVESTMENTS (COST \$6,402,520,580) 98.2%	6,684,732,858
	OTHER ASSETS AND LIABILITIES, NET 1.8%	119,528,982
	NET ASSETS 100.0%	\$6,804,261,840
	At April 30, 1994, the net unrealized appreciation based on the cost of investments for income tax purposes of \$6,402,553,829 was as follows:	
	Aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost	\$ 386,599,148
	Aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value	(104,420,119)
	Net unrealized appreciation	\$ 282,179,029

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

STATEMENT OF INVESTMENTS IN SECURITIES AND NET ASSETS, APRIL 30, 1994 (CONT.)

PORTFOLIO ABBREVIATIONS:

AMBAC	- American Municipal Bond Assurance Corp.
BIG	- Bond Investors Guaranty Insurance Co.
BMTF	- Bi-Modal Multi-Term Format
CDA	- Community Development Authority/Agency
CFD	- Community Facilities Development
CGIC	- Capital Guaranty Insurance Co.
CHM	- Collateralized Home Mortgage
COP	- Certificate of Participation
CRDA	- Community Redevelopment Authority/Agency
EDA	- Economic Development Authority/Agency
EDC	- Economic Development Corp.
EDR	- Economic Development Revenue
ETM	- Escrow to Maturity
FGIC	- Financial Guaranty Insurance Corp.
FHA	- Federal Housing Authority
FI/GML	- Federally Insured or Guaranteed Mortgage Loan
FSA	- Financial Security Assistance
GNMA	- Government National Mortgage Association
GO	- General Obligation
HDA	- Housing Development Authority
HFA	- Housing Finance Agency
HFAR	- Housing Finance Agency Revenue
HFC	- Housing Finance Corp.
HMR	- Home Mortgage Revenue
IDA	- Industrial Development Authority/Agency
IDAR	- Industrial Development Authority Revenue
IDB	- Industrial Development Board

IDR - Industrial Development Revenue
 IPC - Industrial Pollution Control
 ISD - Independent School District
 MBIA - Municipal Bond Investors Assurance Corp.
 MF - Multi-Family
 MFHR - Multi-Family Housing Revenue
 MFMR - Multi-Family Mortgage Revenue
 MFR - Multi-Family Revenue
 MUD - Municipal Utility District
 PBA - Public Building Authority
 PCF - Pollution Control Financing
 PCR - Pollution Control Revenue
 PUD - Public Utility District
 RDA - Redevelopment Authority/Agency
 RDAR - Redevelopment Agency Revenue
 RMR - Residential Mortgage Revenue
 SF - Single Family
 SFM - Single Family Mortgage
 SFMR - Single Family Mortgage Revenue
 SFR - Single Family Revenue
 USD - Unified School District

aNon-income producing.

bSee Note 7 regarding defaulted securities.

cSecurity value estimated by Board of Directors. See Note 1.

dSee Note 1 regarding securities purchased on a when-issued basis.

eVariable rate demand notes (VRDN's) are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand to receive payment of the principal balance plus accrued interest upon short notice prior to specified dates. The interest rate may change on specified dates in relationship with changes in a designated rate (such as the prime interest rate or U.S. Treasury bills rate).

fZero coupon bonds. The current effective yield may vary. The original accretion rate by security, as reported, will remain constant.

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

FINANCIAL STATEMENTS

<TABLE>

<CAPTION>

STATEMENT OF ASSETS AND LIABILITIES

APRIL 30, 1994

<S>

<C>

Assets:

Investments in securities, at value (at identified cost \$6,402,520,580)	\$6,684,732,858
Cash	1,191,371
Receivables:	
Interest	142,194,600
Investment securities sold	91,898,603
Capital shares sold	9,592,197

Total assets	6,929,609,629

Liabilities:

Payables:

Investment securities purchased:	
Regular delivery	43,364,350
When-issued basis (Note 1)	73,854,006
Capital shares repurchased	5,101,374
Management fees	2,572,364
Shareholder servicing costs	83,720
Accrued expenses and other liabilities	371,975

Total liabilities	125,347,789

Net assets, at value	\$6,804,261,840
	=====

Net assets consist of:

Undistributed net investment income	\$ 15,294,390
Unrealized appreciation on investments	282,212,278
Accumulated net realized loss	(84,805,229)
Capital shares	6,591,560,401

Net assets, at value	\$6,804,261,840
	=====

Representative computation of net asset

value and offering price per share:	
Net asset value and redemption price per share	
(\$6,804,261,840 / 576,341,902 shares outstanding)	\$11.81
	=====
Maximum offering price (100/96 of \$11.81)+	\$12.30
	=====

</TABLE>

<TABLE>

<CAPTION>

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED APRIL 30, 1994

<S>	<C>	<C>
Investment income:		
Interest (Note 1)	\$	463,095,773
Expenses:		
Management fees (Note 5)	\$31,132,949	
Shareholder servicing costs (Note 5)	1,021,652	
Reports to shareholders	1,382,199	
Custodian fees	739,159	
Professional fees	110,422	
Directors' fees and expenses	156,474	
Other	758,158	

Total expenses		35,301,013

Net investment income		427,794,760

Realized and unrealized loss on investments:		
Net realized loss	(10,591,976)	
Net unrealized depreciation during the year	(239,927,185)	

Net realized and unrealized loss on investments		(250,519,161)

Net increase in net assets resulting from operations	\$	177,275,599
		=====

</TABLE>

+Effective July 1, 1994, the sales charge has been increased to a maximum of 4.25% (100/95.75). On sales of \$100,000 or more, the offering price is reduced as stated in the section of the Prospectus entitled "How to Buy Shares of the Fund."

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

FINANCIAL STATEMENTS (CONT.)

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED APRIL 30, 1994 AND 1993

<TABLE>

<CAPTION>

	1994	1993
	-----	-----
<S>	<C>	<C>
Increase (decrease) in net assets:		
Operations:		
Net investment income.....	\$ 427,794,760	\$ 388,037,167
Net realized gain (loss) from security transactions.....	(10,591,976)	10,577,998
Net unrealized appreciation (depreciation) during the year.....	(239,927,185)	267,886,898
	-----	-----
Net increase in net assets resulting from operations.....	177,275,599	666,502,063
Distributions to shareholders:		
From undistributed net investment income (Note 8).....	(433,853,432)	(392,237,433)
Increase in net assets from capital share transactions (Note 2).....	646,100,606	956,260,052
	-----	-----
Net increase in net assets.....	389,522,773	1,230,524,682
Net assets:		
Beginning of year.....	6,414,739,067	5,184,214,385
	-----	-----
End of year (including undistributed net investment income of \$15,294,390 - 1994		

</TABLE>

The accompanying notes are an integral part of these financial statements.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Franklin Federal Tax-Free Income Fund (the Fund) is an open-end, management investment company (mutual fund) registered under the Investment Company Act of 1940 as amended.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles for investment companies.

A. SECURITY VALUATION:

Tax-free bonds generally trade in the over-the-counter market rather than on a national securities exchange. Often there are no transactions in a particular security on any given day. In the absence of a recorded sale or reported bid and asked prices, information with respect to bond and note transactions, quotations from bond dealers, market transactions in comparable securities, and various relationships between securities are used to determine the value of the security. The Fund may also utilize a pricing service, bank or broker/dealer experienced in such matters to perform any of the pricing functions, under procedures approved by the Board of Directors. Short-term securities and similar investments with remaining maturities of 60 days or less are valued at amortized cost, which approximates current value.

B. MUNICIPAL BONDS OR NOTES WITH "PUTS":

The Fund has purchased municipal bonds or notes with the right to resell the bonds or notes to the seller at an agreed upon price or yield on a specified date or within a specified period (which will be prior to the maturity date of the bonds or notes). Such a right to resell is commonly known as a "put."

C. INCOME TAXES:

The Fund intends to continue to qualify for the tax treatment applicable to regulated investment companies under the Internal Revenue Code and make the requisite distributions to its shareholders which will be sufficient to relieve it from income taxes and excise tax. Therefore, no income tax provision is required.

D. SECURITY TRANSACTIONS:

Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses on security transactions are determined on the basis of specific identification for both financial statement and income tax purposes.

E. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS:

Distributions to shareholders are recorded on the ex-dividend date. Interest income and estimated expenses are accrued daily. Bond discount and premium are amortized as required by the Internal Revenue Code.

Distributions from undistributed net investment income, and net realized capital gains from security transactions, to the extent they exceed available capital loss carryovers, are generally made during each year, as required, to avoid the 4% excise tax imposed on regulated investment companies by the Internal Revenue Code.

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities - see Note 7.

Net realized capital gains and losses differ for financial statement and tax purposes primarily due to losses deferred for wash sale transactions.

F. SECURITIES PURCHASED ON A WHEN-ISSUED BASIS: The Fund may trade securities on a when-issued or delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price transactions. Although the Fund will generally purchase these securities with the intention of acquiring such securities, it may sell such securities before the settlement date. The Fund has set aside

sufficient investment securities as collateral for these purchase commitments. These securities are identified on the accompanying Statement of Investments in Securities and Net Assets.

G. CHANGE IN ACCOUNTING FOR DISTRIBUTIONS TO SHAREHOLDERS:

Effective April 30, 1994, the Fund adopted AICPA Statement of Position 93-2: Determination, Disclosure and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. As a result, components of net assets have been reclassified to better reconcile financial statement amounts with distributions determined in accordance with Statement of Position 93-2.

FRANKLIN FEDERAL TAX-FREE INCOME FUND

NOTES TO FINANCIAL STATEMENTS (CONT.)

2. CAPITAL STOCK

At April 30, 1994, there were 10,000,000,000 shares of no par value capital stock authorized and capital paid-in aggregated \$6,591,560,401. Transactions in the Fund's shares for the years ended April 30, 1994 and 1993 were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED APRIL 30,			
	1994		1993	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
Shares sold.....	(83,195,814	\$1,025,620,699	(93,757,955	\$1,123,886,446
Shares issued in reinvestment of distributions....	11,697,850	143,535,367	10,644,281	126,931,857
Shares redeemed.....	(39,809,631)	(488,804,178)	(32,120,216)	(385,304,975)
Changes from exercise of exchange privilege:				
Shares sold.....	31,586,425	386,989,974	29,804,275	356,637,880
Shares redeemed.....	(34,268,195)	(421,241,256)	(22,110,420)	(265,891,156)
Net increase.....	52,402,263	\$ 646,100,606	79,975,875	\$ 956,260,052

</TABLE>

3. DISTRIBUTIONS AND CAPITAL LOSS CARRYOVERS

At April 30, 1994, for tax purposes, the Fund had capital loss carryovers as follows:

<TABLE>

<S>	<C>
Expiring in: 1996.....	\$32,151,648
1997.....	19,946,075
1998.....	14,050,263
2000.....	8,032,018
2002.....	10,591,976

	\$84,771,980
	=====

</TABLE>

For income tax purposes, the aggregate cost of securities is higher (and unrealized appreciation is lower) than for financial reporting purposes at April 30, 1994 by \$33,249.

4. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities (excluding purchases and sales of short-term securities) for the year ended April 30, 1994 aggregated \$2,237,436,504 and \$1,665,594,278, respectively.

5. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Franklin Advisers, Inc., under the terms of a management agreement, provides investment advice, administrative services, office space and facilities to the Fund, and receives fees computed monthly on the net assets of the Fund on the last day of the month at an annualized rate of 5/8 of 1% of the first \$100 million of net assets, 1/2 of 1% of net assets in excess of \$100 million up to and including \$250 million, 45/100 of 1% of net assets in excess of \$250

million up to and including \$10 billion, 44/100 of 1% of net assets in excess of \$10 billion up to and including \$12.5 billion, 42/100 of 1% of net assets in excess of \$12.5 billion up to and including \$15 billion, 40/100 of 1% of net assets in excess of \$15 billion up to and including \$17.5 billion, 38/100 of 1% of net assets in excess of \$17.5 billion up to and including \$20 billion, and 36/100 of 1% of net assets in excess of \$20 billion. Fees incurred by the Fund aggregated \$31,132,949 for the period ended April 30, 1994. The terms of the management agreement provide that aggregate annual expenses of the Fund be limited to the extent necessary to comply with the limitations set forth in the laws, regulations and administrative interpretations of the states in which the Fund's shares are registered. There was no reimbursement to the Fund under this provision for the year ended April 30, 1994.

In its capacity as underwriter for the capital stock of the Fund, Franklin/Templeton Distributors, Inc. received commissions on sales of the Fund's capital stock for the year ended April 30, 1994 totaling \$37,920,217 of which \$35,401,995 was subsequently paid to other dealers. Commissions are deducted from the gross proceeds received from the sale of the capital stock of the Fund, and as such are not expenses of the Fund.

Under the terms of a shareholder servicing agreement with Franklin/Templeton Investors Services, Inc., the Fund pays costs on a per shareholder account basis. Shareholder servicing costs incurred for the year ended April 30, 1994 aggregated \$1,021,652 of which \$923,341 was paid to Franklin/Templeton Investors Services, Inc.

Certain officers and directors of the Fund are also officers and/or directors of Franklin/Templeton Distributors, Inc., Franklin Advisers, Inc. and Franklin/Templeton Investors Services, Inc., all wholly owned subsidiaries of Franklin Resources, Inc.

52

FRANKLIN FEDERAL TAX-FREE INCOME FUND

NOTES TO FINANCIAL STATEMENTS (CONT.)

6. SUBSEQUENT EVENT

On April 19, 1994 and May 17 1994 the Board of Directors declared distributions of \$.065 per share from undistributed net investment income to shareholders of record at the end of business on April 29, 1994 and May 31, 1994 payable on May 13, 1994 and June 15, 1994, respectively.

7. CREDIT RISK AND DEFAULTED SECURITIES

Although the Fund has a diversified portfolio, it has investments in excess of 10% of its total net assets in the state of New York. Such concentration may subject the Fund more significantly to economic changes occurring within that state.

The Fund has 1.57% of its portfolio invested in lower rated and comparable quality unrated high yield securities. Investments in higher yield securities are accompanied by a greater degree of credit risk and such lower quality securities tend to be more sensitive to economic conditions than higher rated securities.

The risk of loss due to default by the issuer may be significantly greater for the holders of high yielding securities, because such securities are generally unsecured and are often subordinated to other creditors of the issuer. At April 30, 1994, the Fund held one defaulted security with a value aggregating \$4,350,000 representing 0.06% of the Fund's net assets. For more information as to the specific security, see the accompanying Statement of Investments in Securities and Net Assets.

For financial reporting purposes, it is the Fund's accounting practice to discontinue accrual of income and provide an estimate for probable losses due to unpaid interest income on defaulted bonds for the current reporting period.

8. FINANCIAL HIGHLIGHTS

Selected data for each share of capital stock outstanding throughout each period are set forth in the Prospectus under the caption "Financial Highlights."

During this fiscal year, the Fund paid distributions from undistributed net investment income in the amounts shown in the Statement of Changes in Net Assets. The Fund hereby designates the total amount of these distributions as exempt-interest dividends under Section 852(b)(5) of the Internal Revenue Code.

This page intentionally left blank.

This page intentionally left blank.

This page intentionally left blank.