

FEDERATED PREMIER MUNICIPAL INCOME FUND
Form N-2/A
February 10, 2003

As filed with the Securities and Exchange Commission on February 10, 2003

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1940 Act File No. 811-21235

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933		X
Pre-Effective Amendment No. 2 		X
Post-Effective Amendment No. 		

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940		X
Amendment No. 7 		X

FEDERATED PREMIER MUNICIPAL INCOME FUND

(Exact Name of Registrant as Specified in Charter)

Federated Investors Funds
5800 Corporate Drive
Pittsburgh, Pennsylvania 15237-7000
(Address of Principal Executive Offices)

(412) 288-1900
(Registrant's Telephone Number)

Leslie K. Ross, Esquire
Reed Smith LLP
Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, Pennsylvania 15222-3779
(Name and Address of Agent for Service)
(Notices should be sent to the Agent for Service)

Copies to:

Matthew G. Maloney, Esquire
Dickstein Shapiro Morin & Oshinsky, LLP
2101 L Street, N.W.
Washington, D.C. 20037

Approximate Date of Proposed Public Offering: As soon as possible after the effectiveness of the Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall

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file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price
AMPS	2,147 shares	\$25,000/share	\$53,675,000

Amount of Registration Fee

\$4,938.10*

* \$3,680 of which was previously paid on December 20, 2002.

CROSS-REFERENCE SHEET PARTS A AND B

ITEM NO.	CAPTION	LOCATION IN PROSPECTUS
1.	Outside Front Cover Page	Outside Front Cover Page
2.	Inside Front and Outside Back	Inside Front and Outside Back
3.	Fee Table and Synopsis	Summary of Fund Expenses
4.	Financial Highlights	Financial Highlights (unaudited)
5.	Plan of Distribution	Outside Front Cover Page
6.	Selling Shareholders	Not Applicable
7.	Use of Proceeds	Use of Proceeds
8.	General Description of the Registrant	Outside Front Cover Page
9.	Management	Management of the Fund
10.	Capital Stock, Long-Term Debt and Other Securities	Shares of Beneficial Interests
11.	Defaults and Arrears on Senior Securities	Not Applicable
12.	Legal Proceedings	Not Applicable
13.	Table of Contents of SAI	Table of Contents (SAI)
14.	Cover Page of SAI	Cover Page (SAI)
15.	Table of Contents of SAI	Table of Contents (SAI)
16.	General Information and History	Appendix A (SAI)
17.	Investment Objective and	Additional Investment Policies

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18.	Policies Management	Trustees and Officers (SAI); Advisory and Other Services
19.	Control Persons and Principal Holders of Securities	Not Applicable
20.	Investment Advisory and Other Services	Investment Advisory and Other Services (SAI)
21.	Brokerage Allocation and Other Practices	Brokerage Commissions (SAI)
22.	Tax Status	Not Applicable
23.	Financial Statements	Financial Statements (SAI)

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED FEBRUARY 10, 2003

PROSPECTUS

[FEDERATED(R) LOGO]

\$53,675,000

FEDERATED PREMIER MUNICIPAL INCOME FUND

AUCTION MARKET PREFERRED SHARES ("AMPS")

2,147 SHARES, SERIES A

LIQUIDATION PREFERENCE \$25,000 PER SHARE

INVESTMENT OBJECTIVE. Federated Premier Municipal Income Fund (the "Fund") is a recently organized, diversified, closed-end management investment company. The Fund's investment objective is to provide current income exempt from federal income tax, including alternative minimum tax ("AMT"). The Fund cannot assure you that it will achieve its investment objective.

INVESTMENT PORTFOLIO. The Fund will invest primarily in securities that, in the opinion of bond counsel to the issuer, or on the basis of another authority believed by Federated Investment Management Company, the Fund's investment adviser, to be reliable, pay interest exempt from federal income tax, including AMT. The Fund normally invests substantially all (at least 90%) of its total assets in tax exempt securities. The Fund will invest at least 80% of its total assets in investment grade tax exempt securities. The Fund may invest up to 20% of its total assets in tax exempt securities of below investment grade quality, but not lower than B. Tax exempt securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and are commonly referred to as "junk bonds." Under normal circumstances, the Fund will maintain a dollar-weighted average portfolio maturity of 15 to 30 years and a dollar-weighted average duration of 7 to 13 years.

INVESTING IN AMPS INVOLVES RISKS. SEE "RISKS" BEGINNING ON PAGE 16 OF THIS PROSPECTUS. THE MINIMUM PURCHASE AMOUNT OF THE AMPS IS \$25,000.

The Securities and Exchange Commission has not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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	PER SHARE -----	TOTAL -----
Public offering price	\$25,000	\$
Sales load	\$	\$
Proceeds to the Fund (before expenses) (1)	\$	\$

(1) Not including offering expenses payable by the Fund estimated to be \$. The Fund and its investment adviser, Federated Investment Management Company, have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The underwriters are offering the AMPS subject to various conditions. The underwriters expect to deliver the AMPS to purchasers, in book-entry form, through the facilities of The Depository Trust Company on or about

MERRILL LYNCH & CO.

UBS WARBURG

The date of this prospectus is _____, 2003.

[SIDENOTE]

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in AMPS and retain it for future reference. A Statement of Additional Information, dated _____, 2003, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 40 of this prospectus, by calling 1-800-341-7400 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

AMPS are not deposits or obligations of any bank, are not insured or guaranteed by any bank and are not insured or guaranteed by the U.S. government, the Federal Reserve Board or any other government agency.

The Fund is offering 2,147 shares of Series A AMPS. AMPS have a liquidation preference of \$25,000 per share, plus any accumulated, unpaid dividends. AMPS also have priority over the Fund's common shares ("Common Shares") as to distribution of assets as described in this prospectus. It is a condition of closing this offering that AMPS be offered with a rating of "AAA" from Fitch Ratings ("Fitch") and "Aaa" from Moody's Investors Service, Inc. ("Moody's").

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The dividend rate for the initial dividend rate period will be ____%. The initial rate period is from the date of issuance through _____, 2003. For subsequent rate periods, AMPS pay dividends based on a rate set at auction, usually held weekly on each Thursday. Prospective purchasers should carefully review the auction procedures described in this prospectus and should note: (1) a buy order (called a "bid order") or sell order is a commitment to buy or sell AMPS based on the results of an auction; (2) auctions will be conducted by telephone; and (3) purchases and sales will be settled on the next business day after the auction.

AMPS are redeemable, in whole or in part, at the option of the Fund on the second business day prior to any date dividends are paid on AMPS, and will be subject to mandatory redemption in certain circumstances at a redemption price of \$25,000 per share, plus accumulated but unpaid dividends to the date of the redemption, plus a premium in certain circumstances.

AMPS are not listed on an exchange. You may only buy or sell AMPS through an order placed at an auction with or through (1) a broker-dealer that has entered into an agreement with the auction agent or (2) such other person as the Fund permits.

Dividends on AMPS, to the extent payable from tax exempt income earned on the Fund's investments, will be exempt from federal income tax (including AMT) in the hands of owners of such shares. The Fund is required to allocate net capital gains and other taxable income, if any, proportionately between Common Shares and AMPS, based on the percentage of total dividends distributed to each class for that year. The Fund may, at its election, give notice of the amount of any income subject to federal income tax to be included in a dividend on AMPS in advance of the related auction. If the Fund does not give such advance notice, it generally will be required to pay additional amounts to holders of AMPS in order to adjust for their receipt of income subject to federal income tax.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. THE FUND HAS NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THE FUND IS NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION PROVIDED BY THIS PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THIS PROSPECTUS.

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PROSPECTUS SUMMARY

THIS IS ONLY A SUMMARY. THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN AMPS. YOU SHOULD READ THE MORE DETAILED INFORMATION CONTAINED IN THIS PROSPECTUS, THE STATEMENT OF ADDITIONAL INFORMATION AND THE FUND'S STATEMENT OF PREFERENCES OF AMPS (THE "STATEMENT") ATTACHED AS APPENDIX A TO THE STATEMENT OF ADDITIONAL INFORMATION. CAPITALIZED TERMS USED BUT NOT DEFINED IN THIS PROSPECTUS SHALL HAVE THE MEANINGS GIVEN TO SUCH TERMS IN THE STATEMENT.

THE FUND

Federated Premier Municipal Income Fund is a recently diversified, closed-end, management investment company. Fund's Common Shares are traded on the New York Stock Exchange under the symbol "FMN". See "Description of Common Shares" under "Description of Shares" in the Statement of Additional Information. As of February 3, 2003, the Fund had 6,106,981 Common Shares and net assets of \$87,420,823.

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide current income that is exempt from federal income tax, including AMT.

INVESTMENT POLICIES

The Fund will invest primarily in securities that, in the absence of bond counsel to the issuer, or on the basis of another authority believed by Federated Investment Management Company, the Fund's investment adviser, to be reliable, pay interest that is exempt from federal income tax, including AMT. The Fund invests substantially all (at least 90%) of its total assets in tax exempt securities. The Fund will invest at least 80% of its total assets in investment grade tax exempt securities. Investment grade tax exempt securities are those rated in the four highest categories by a nationally recognized statistical rating organization ("NRSRO"). See "The Fund's Investments--Investment Ratings." The Fund may invest up to 10% of its total assets in tax exempt securities of below investment grade quality, but not lower than B. Tax exempt securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal and are commonly referred to as "junk bonds." See "The Fund's Investments--Investment Ratings."

Under normal circumstances, the Fund will maintain a dollar-weighted average portfolio maturity of 15 to 30 years and a dollar-weighted average duration of 7 to 13 years. See "The Fund's Investments."

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INVESTMENT ADVISER

Federated Investment Management Company will be the Fund's investment adviser (the "Adviser"). The Adviser receives an annual management fee as a maximum amount equal to 0.55% of the average daily value of the Fund's Managed Assets. "Managed Assets" means the total assets of the Fund, including assets attributable to AMPS, any other preferred shares that may be issued in the future or borrowings that may be outstanding, less the sum of accrued liabilities, other than debt representing the Fund's leverage. The liquidation preference of AMPS or any other securities that may be issued in the future is not a liability. The Adviser has contractually agreed to waive receipt of a portion of the Fund's net assets to reimburse other expenses of the Fund in the amount of 0.55% of the average daily value of the Fund's Managed Assets from the commencement of the Fund's operations through December 31, 2007 (i.e., approximately seven years of the Fund's operations), and for a declining amount thereafter for an additional three years (through December 31, 2010). See "The Fund's Investments."

THE OFFERING

The Fund is offering 2,147 shares of Series A AMPS at a price of \$25,000 per share. AMPS are being offered by the underwriter of the Fund under "Underwriting."

RISK FACTORS SUMMARY

Risk is inherent in all investing. Therefore, before you invest in the Fund, you should consider the risks carefully. The primary risks associated with investing in AMPS are:

- if an auction fails, you may not be able to sell your AMPS;
- because of the nature of the market for AMPS, you may receive less than the price you paid for your AMPS if you sell them in an auction, especially when market interest rates are high;
- an NRSRO could downgrade the rating assigned to AMPS, which could affect liquidity;
- the Fund may be forced to redeem your AMPS to meet its obligations or may voluntarily redeem your AMPS in certain circumstances;

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- in certain circumstances, the Fund may not earn sufficient income on its investments to pay dividends;

- if interest rates rise, the value of the Fund's investments will decline, reducing the asset coverage for AMPS;
- if an issuer of a tax exempt security in which the Fund invests experiences financial difficulty or defaults, there may be a negative impact on the income and net asset value ("NAV") of the Fund's portfolio;
- the Fund may invest up to 20% of its total assets in securities that are below investment grade quality, but not lower than investment grade, and are regarded as having predominately speculative character. In respect to the issuer's capacity to pay interest and principal on such securities;
- if the securities in which the Fund invests fail to meet the requirements, interest received and distributed by the Fund could be taxable;
- because the Fund may invest more than 25% of its total assets in tax-exempt securities of issuers in the same economic sector as securities that are credit enhanced by insurance companies or similar financial institutions, the performance of the Fund may be more susceptible to any economic, business, political or other developments that generally affect these sectors of the economy;
- because the Fund is a recently organized investment vehicle with a limited operating history; and
- because the Fund invests in tax exempt securities, it is subject to market risks associated with such securities, including a reliance toward less publicly available information, less liquidity and vulnerability to local legislative changes and economic conditions.

For additional discussion of the risks associated with AMPS and the Fund, see "Risks" below.

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TRADING MARKET

AMPS are not listed on an exchange. Instead, you may buy or sell AMPS at an auction that normally is held weekly, by submitting an order to a broker-dealer that has entered into an agreement with the Fund's agent (a "Broker-Dealer"), or to a broker-dealer that has entered into a separate agreement with a Broker-Dealer. In addition to the weekly auctions, Broker-Dealers and other broker-dealers may maintain a secondary trading market in AMPS outside of auctions, but the Fund may discontinue this activity at any time. There is no assurance that a secondary market will provide holders of AMPS with liquidity. You may transfer AMPS outside of auctions only to or through a Broker-Dealer or a broker-dealer that has entered into a separate agreement with the Fund's Broker-Dealer. The table below shows the first auction date for each rate period and the day on which each subsequent auction will normally be held. The first auction date for AMPS will be the business day immediately preceding the dividend payment date for the initial rate period. The first subsequent rate periods will normally be the business day immediately preceding the auction date unless the then-current rate period is a 30-day rate period.

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SPECIAL TAX CONSIDERATIONS

The Fund invests primarily in securities that pay interest net of federal income tax, including AMT. Consequently, the dividends you receive generally will be exempt from federal income tax, including AMT. However, dividends may be subject to state taxes. In addition, distributions of any capital gain or other income will be taxable to shareholders.

Taxable income or gain earned by the Fund will be allocated proportionately to holders of AMPS and Common Shares based on the percentage of total dividends paid to each class for the period. Accordingly, certain specified AMPS dividends may be subject to tax on income or gains attributed to the Fund. The Fund will, upon election, give notice before any applicable auction of any taxable income and gain to be distributed for the period prior to that auction. If the Fund does not provide such notice, the Fund generally will make shareholders whole for taxes owing on dividends paid to holders of AMPS that include taxable income and gains. See "Matters" and "Description of the AMPS--Dividends and Ra

RATINGS

AMPS will be issued with a rating of "Aaa" from Moody's and Aaa from Fitch. These ratings are an assessment of the capacity of an issuer

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to pay preferred share obligations. The ratings are not a recommendation to purchase, hold or sell those shares and the rating does not comment as to market price or suitability for any particular investor. The ratings described above also do not indicate the likelihood that an owner of preferred shares will be able to sell such shares in an auction or otherwise. The ratings are based on current information furnished to Moody's and Fitch by the Fund's Adviser and information obtained from other sources. The ratings may be changed, suspended or withdrawn in the NRSRO's discretion as a result of changes in, or the unavailability of, such information. In order to maintain this rating, the Fund must own portfolio assets of a sufficient value and with adequate credit quality consistent with the NRSRO's guidelines. See "Description of the AMPS--NRSRO Guidelines" and "Asset Coverage."

REDEMPTION

The Fund may be required to redeem AMPS if, for example, the Fund does not meet an asset coverage ratio required by law or the Fund fails to meet an NRSRO guideline in a timely manner. The Fund may voluntarily redeem AMPS under certain conditions. See "Description of the AMPS--Redemption" and "Description of the AMPS--NRSRO Guidelines and Asset Coverage."

LIQUIDATION PREFERENCE

The liquidation preference for AMPS will be \$25,000 per share plus accumulated but unpaid dividends. See "Description of the AMPS--NRSRO Guidelines and Asset Coverage."

VOTING RIGHTS

The holders of preferred shares, including AMPS, voting rights, have the right to elect at least two trustees of the Fund at all times. Such holders also have the right to elect additional trustees in the event that two years' dividends on the preferred shares are unpaid. In each case, the remaining trustees will be elected by holders of Common Shares and preferred shares.

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AMPS, voting together as a single class. The holders of shares, including AMPS, will vote as a separate class on certain other matters as required under the Fund's Agreement of Declaration of Trust, the Investment Company Act of 1940 ("Investment Company Act") and Delaware law. See "Description of AMPS--Voting Rights," and "Certain Provisions in the Agreement of Declaration of Trust."

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FINANCIAL HIGHLIGHTS (UNAUDITED)

Information contained in the table below shows the unaudited operating performance of the Fund from the commencement of the Fund's investment operations on December 20, 2002 through February 3, 2003. Since the Fund was recently organized and commenced investment operations on December 20, 2003 the table covers less than seven weeks of operations, during which a substantial portion of the Fund's portfolio was held in temporary investments pending investment in tax exempt securities that meet the Fund's investment objectives and policies. Accordingly, the information presented may not provide a meaningful picture of the Fund's future operating performance.

	FOR THE PERIOD DECEMBER 20, 2002 * THROUGH FEBRUARY 3, 2003 (UNAUDITED)
PER COMMON SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period**	\$ 14.32+

Net investment income	0.06
Net realized and unrealized loss on investments	(0.04)

Net increase from investment operations	0.02

Capital charge with respect to issuance of Common Shares	(0.03)

Net asset value, end of period**	\$ 14.31

Market value, end of period**	\$ 14.55
	=====
Total Investment Return++	(3.00)%
	=====
Ratios To Average Net Assets Of Common Shareholders:	
Expenses after fee waiver	0.55%#
Expenses before fee waiver	0.90%#
Net investment income after fee waiver	3.81%#
Net investment income before fee waiver	3.46%#
Supplemental Data:	
Average net assets of Common Shareholders (000)	\$83,904
Portfolio turnover	16%
Net assets of Common Shareholders, end of period (000)	\$87,421

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- * Commencement of investment operations.
- ** NAV and market value are published in THE WALL STREET JOURNAL on Mondays.
- + NAV immediately after the closing of the first public offering was \$14.36.
- ++ Total investment return is calculated assuming a purchase of Common Shares at the current market price on the first day and a sale at the current market price on the last day of the period reported. Total investment return does not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results.
- # Annualized.

The information above represents the unaudited operating performance for a Common Share outstanding, total investment return, ratios to average net assets and other supplemental data for the periods indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Fund's Common Shares.

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THE FUND

The Fund is a recently organized, diversified, closed-end, management investment company registered under the Investment Company Act. The Fund was organized as a Delaware statutory trust on October 16, 2002 pursuant to an Agreement and Declaration of Trust governed by the laws of the State of Delaware. On December 24, 2002, the Fund issued an aggregate of 5,850,000 Common Shares of beneficial interest, par value \$.01 per share, pursuant to the initial public offering. The Fund's Common Shares are traded on the New York Stock Exchange under the symbol "FMN". The Fund's principal office is located at 5800 Corporate Drive, Pittsburgh, PA 15237-7000, and its telephone number is 1-800-341-7400.

The following provides information about the Fund's outstanding shares as of February 3, 2003:

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY THE FUND OR FOR ITS ACCOUNT	AMOUNT OUTSTANDING
Common	Unlimited	0	6,106,981
Preferred	Unlimited	0	0

USE OF PROCEEDS

The net proceeds of this offering will be approximately \$_____ after payment of the sales load and estimated offering costs. The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objective and policies as stated below. The Adviser currently anticipates that the Fund will be able to invest substantially all of the net proceeds in tax

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exempt securities that meet the Fund's objective and policies at or shortly (within six to eight weeks) after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in short-term, tax-exempt or taxable investment grade securities.

CAPITALIZATION (UNAUDITED)

The following table sets forth the capitalization of the Fund as of February 3, 2003, and as adjusted to give effect to the issuance of AMPS offered hereby.

	ACTUAL -----	AS A -----
AMPS, \$.01 par value, \$25,000 stated value per share, at liquidation value; unlimited shares authorized (no shares issued; 2,147 shares issued, as adjusted)	\$ --	\$53,
Shareholder's Equity:		
Common Shares, \$.01 par value per share; unlimited shares authorized, 6,106,981 shares outstanding*	61,070	\$
Paid-in surplus**	87,207,722	86,
Balance of undistributed net investment income	376,741	
Accumulated net realized loss from investment transactions	(4,072)	
Net unrealized depreciation of investments	(220,638)	(
	-----	-----
Net assets	87,420,823	\$86,
	=====	=====

* None of these outstanding shares are held by or for the account of the Fund.

** As adjusted, paid-in surplus reflects a reduction for the estimated offering costs of AMPS issuance (\$636,750).

PORTFOLIO COMPOSITION

As of February 4, 2003, approximately 100% of the market value of the Fund's portfolio was invested in long-term tax exempt securities. The following table sets forth certain information with respect to the composition of the Fund's investment portfolio as of February 4, 2003, based on the highest rating assigned.

CREDIT RATING -----	VALUE (000) -----	PERCENT -----
------------------------	-------------------------	------------------

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AAA/Aaa*	\$45,303,030	46.56%
AA/Aa	\$ 1,521,410	1.63%
A/A	\$15,620,044	16.74%
BBB/Baa	\$20,310,933	21.77%
BB/Ba	\$ 0	0%
B/B	\$ 1,120,669	1.20%
Unrated+	\$ 9,422,415	10.10%
	-----	-----
Total	\$93,298,501	100%

- * Includes securities that are backed by an escrow or trust containing sufficient U.S. government securities to ensure the timely payment of principal and interest.
- + Refers to securities that have not been rated by Moody's, Fitch or Standard & Poor's ("S&P") but that have been assessed by the Adviser as being of comparable credit quality to rated securities in which the Fund may invest. See "The Fund's Investments--Investment Objective and Investment Policies."

THE FUND'S INVESTMENTS

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide current income exempt from federal income tax, including AMT.

INVESTMENT POLICIES

The Fund will invest primarily in securities that, in the opinion of bond counsel to the issuer, or on the basis of another authority believed by the Adviser to be reliable, pay interest exempt from federal income tax, including AMT. The Adviser will not conduct its own analysis of the tax status of the interest paid by issuers of tax exempt securities held by the Fund.

The Fund normally invests substantially all (at least 90%) of its total assets in tax exempt securities. The Fund normally will invest at least 80% of its total assets in investment grade tax exempt securities. The Fund may invest up to 20% of its total assets in tax exempt securities of below investment grade quality, but not lower than B. Bonds of below investment grade quality are commonly referred to as "junk bonds." Bonds of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

The Adviser performs a fundamental credit analysis on tax exempt securities that the Fund is contemplating purchasing before the Fund purchases such securities. The Adviser considers various factors, including the economic feasibility of revenue bond financings and general purpose financings; the financial condition of the issuer or guarantor; and political developments that may affect credit quality. The Adviser monitors the credit risks of the tax exempt securities held by the Fund on an ongoing basis by reviewing periodic financial data and ratings of NRSROs.

Under normal circumstances, the Fund will maintain a dollar-weighted average portfolio maturity of 15 to 30 years and a dollar-weighted average

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duration of 7 to 13 years. "Duration" measures the sensitivity of a security's price to changes in interest rates. The greater a portfolio's duration, the greater the change in the portfolio's value in response to a change in market interest rates. The Adviser increases or reduces the Fund's portfolio duration based on its interest rate outlook. When the Adviser expects interest rates to fall, it attempts to maintain a longer portfolio duration. When the Adviser expects interest rates to increase, it attempts to shorten the portfolio duration. The Adviser considers a variety of factors in formulating its interest rate outlook, including current and expected U.S. economic growth; current and expected interest rates and inflation; the Federal Reserve's monetary policy; and supply and demand factors related to the municipal market and the effect they may have on the returns offered for various bond maturities.

For temporary or defensive purposes, the Fund may invest up to 100% of its assets in short-term investments, including high quality, short-term securities that may be either tax exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax exempt short-term investments are not available at reasonable prices and yields. Investments in taxable short-term investments would result in a portion of your dividends being subject to federal income taxes. For more information, see "Tax Matters" in the Statement of Additional Information.

Because the Fund refers to municipal investments in its name, it has an investment policy that it will normally invest so that at least 80% of the income that it distributes will be exempt from federal regular income tax. This policy is referred to as the "80% Policy."

The Fund cannot change its investment objective or the 80% Policy without the approval of (1) the holders of a majority of the outstanding Common Shares, AMPS and any other preferred shares that may be issued in the future voting together as a single class, and (2) the holders of a majority of the outstanding AMPS and any other preferred shares that may be issued in the future voting as a separate class. A "majority of the outstanding" means (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy or (2) more than 50% of the shares, whichever is less. See "Description of AMPS--Voting Rights."

INVESTMENT RATINGS

The Adviser will determine whether a security is investment grade based upon the credit ratings given by one or more NRSROs, such as S&P, Moody's or Fitch. For example, S&P assigns ratings to investment grade securities (AAA, AA, A and BBB) based on its assessment of the likelihood of the issuer's inability to pay interest or principal (default) when due on each security. Lower credit ratings correspond to higher credit risk. Securities in the lowest investment grade category may be considered to possess speculative characteristics by certain NRSROs. An NRSRO's rating categories are determined without regard for sub-categories and gradations. If a security is downgraded below investment grade, the Adviser will reevaluate the security, but will not be required to sell it.

Tax exempt securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal and are commonly referred to as "junk bonds."

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If a security has not received a rating, the Fund must rely entirely upon the Adviser's credit assessment. See Appendix B to the Statement of Additional Information for a description of NRSRO ratings.

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INVESTMENT SECURITIES

TAX EXEMPT SECURITIES. Tax exempt securities are fixed income securities that pay interest that is not subject to federal regular income taxes. Fixed income securities pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically.

Typically, states, counties, cities and other political subdivisions and authorities issue tax exempt securities. The market categorizes tax exempt securities by their source of repayment.

GENERAL OBLIGATION BONDS. General obligation bonds are supported by the issuer's power to exact property or other taxes. The issuer must impose and collect taxes sufficient to pay principal and interest on the bonds. However, the issuer's authority to impose additional taxes may be limited by its charter or state law.

SPECIAL REVENUE BONDS. Special revenue bonds are payable solely from specific revenues received by the issuer such as specific taxes, assessments, tolls or fees. Holders of special revenue bonds may not depend on the municipality's general taxes or revenues for payment of the bonds. For example, a municipality may issue bonds to build a toll road and pledge the tolls to repay the bonds. Therefore, a shortfall in the tolls normally would result in a default on the bonds.

PRIVATE ACTIVITY BONDS. Private activity bonds are special revenue bonds used to finance private entities. For example, a municipality may issue bonds to finance a new factory to improve its local economy. The municipality would lend the proceeds from its bonds to the company using the factory, and the company would agree to make loan payments sufficient to repay the bonds. The bonds would be payable solely from the company's loan payments, not from any other revenues of the municipality. Therefore, any default on the loan normally would result in a default on the bonds. The interest on many types of private activity bonds is subject to AMT. The Fund will invest primarily in bonds that pay interest exempt from AMT.

Following are descriptions of other types of tax exempt securities in which the Fund may invest:

ZERO COUPON SECURITIES. Zero coupon securities do not pay interest or principal until final maturity unlike debt securities that provide periodic payments of interest, referred to as a coupon payment. Investors buy zero coupon securities at a price below the amount payable at maturity. The difference between the purchase price and the amount paid at maturity represents interest on the zero coupon security. Investors must wait until maturity to receive interest and principal, which increases the interest rate risks and credit risks of a zero coupon security.

MUNICIPAL LEASES. Municipalities may enter into leases for equipment or facilities. In order to comply with state public financing laws, these leases are typically subject to annual appropriation. In other words, a municipality may end a lease, without penalty, by not providing for the lease payments in its

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annual budget. After the lease ends, the lessor can resell the equipment or facility but may lose money on the sale.

The Fund may invest in securities supported by individual leases or pools of municipal leases.

CREDIT ENHANCEMENT

The Fund may invest in securities that have credit enhancement. Credit enhancement consists of an arrangement in which a company agrees to pay amounts due on a fixed income security if the issuer defaults. In some cases the company providing credit enhancement makes all payments directly to the security holders and receives reimbursement from the issuer. Normally, the credit enhancer has greater financial resources and liquidity than the issuer. For this reason, the Adviser usually evaluates the credit risk of a fixed income security with credit enhancement based solely upon its credit enhancement.

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DELAYED DELIVERY TRANSACTIONS

The Fund may engage in delayed delivery transactions. Delayed delivery transactions, including when-issued transactions, are arrangements in which the Fund buys securities for a set price, with payment and delivery of the securities scheduled for a future time. During the period between purchase and settlement, no payment is made by the Fund to the issuer and no interest accrues to the Fund. The Fund records the transactions when it agrees to buy the securities and reflects their value in determining the price of its shares. Settlement dates may be a month or more after entering into these transactions so that the market values of the securities bought may vary from the purchase prices. Therefore, delayed delivery transactions create interest rate risks for the Fund. Delayed delivery transactions also involve credit risks in the event of a counterparty default.

DERIVATIVE CONTRACTS

The Fund may buy and sell derivative contracts. Derivative contracts are financial instruments that require payments based upon changes in the values of designated or underlying securities, commodities, financial indices or other assets or instruments. Some derivative contracts such as futures, forwards and options require payments relating to a future trade involving the underlying asset. Other derivative contracts such as swaps require payments relating to the income or returns from the underlying asset or instrument. The other party to a derivative contract is referred to as a counterparty.

Many derivative contracts are traded on securities or commodities exchanges. In this case, the exchange sets all the terms of the contract except for the price. Most exchanges require investors to maintain margin accounts through their brokers to cover their potential obligations to the exchange. The Fund may also trade derivative contracts over-the-counter (OTC) in transactions negotiated directly between the Fund and the counterparty.

Depending upon how the Fund uses derivative contracts and the relationships between the market value of a derivative contract and the underlying asset or instrument, derivative contracts may increase or decrease the Fund's exposure to interest rate risks, and may also expose the Fund to leverage and tax risks. OTC contracts also expose the Fund to credit risks in the event that a counterparty

defaults on the contract.

OTHER INVESTMENT COMPANIES

The Fund may invest up to 10% of its total assets in securities of other open- or closed-end investment companies that invest primarily in tax exempt securities of the types in which the Fund may invest directly. The Fund generally expects to invest in other investment companies during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of AMPS, during periods when there is a shortage of attractive high-yielding tax exempt securities available in the market, or when the Adviser believes share prices of other investment companies offer attractive values. The Fund may invest in investment companies advised by the Adviser to the extent permitted by applicable law or pursuant to exemptive relief from the Securities and Exchange Commission; currently, the Fund has not applied for such relief. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company's expenses and will remain subject to payment of the Fund's advisory and other fees and expenses with respect to assets so invested. Holders of AMPS therefore will be subject to duplicative expenses to the extent that the Fund invests in other investment companies. The Adviser will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available tax exempt securities. In addition, the securities of other investment companies also may be leveraged. The NAV and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. The Fund treats its investment in such open- or closed-end investment companies as investments in tax exempt securities.

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RISKS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in AMPS.

INTEREST RATE RISK

Interest rate risk is the risk that tax exempt securities, and the Fund's net assets, will decline in value because of changes in interest rates. Generally, tax exempt securities will decrease in value when interest rates rise and increase in value when interest rates decline. The Fund issues AMPS, which pay dividends based on short-term interest rates. The Fund then uses the proceeds from the sale of AMPS to buy tax exempt securities, which pay interest based on long-term rates. Both long-term and short-term interest rates may fluctuate. If short-term interest rates rise, AMPS dividend rates may rise so that the amount of dividends paid to holders of AMPS exceeds the income from the portfolio securities purchased with the proceeds from the sale of AMPS. Because income from the Fund's entire investment portfolio, not just the portion of the portfolio purchased with the proceeds of the AMPS offering, is available to pay AMPS dividends, AMPS dividend rates would need to greatly exceed the yield on the Fund's portfolio before the Fund's ability to pay AMPS dividends would be

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impaired. If long-term rates rise, the value of the Fund's investment portfolio will decline, reducing the amount of assets serving as asset coverage for AMPS.

AUCTION RISK

The dividend rate for the AMPS normally is set through an auction process. In the auction, holders of AMPS may indicate the dividend rate at which they would be willing to hold or sell their AMPS or purchase additional AMPS. The auction also provides liquidity for the sale of AMPS. An auction fails if there are more AMPS offered for sale than there are buyers. You may not be able to sell your AMPS at an auction if the auction fails. Also, if you place hold orders (orders to retain AMPS) at an auction only at a specified dividend rate, and that rate exceeds the rate set at the auction, you will not retain your AMPS. Finally, if you buy AMPS or elect to retain AMPS without specifying a dividend rate below which you would not wish to buy or continue to hold those AMPS, you could receive a lower rate of return on your AMPS than the market rate. See "Description of the AMPS" and "The Auction--Auction Procedures."

SECONDARY MARKET RISK

If you try to sell your AMPS between auctions, you may not be able to sell any or all of your AMPS or you may not be able to sell them for \$25,000 per share or \$25,000 per share plus accumulated dividends. If the Fund has designated a special rate period (a rate period of more than seven days), changes in interest rates could affect the price you would receive if you sold your AMPS in the secondary market. You may transfer AMPS outside of auctions only to or through (1) a broker-dealer that has entered into an agreement with the auction agent or (2) such other person as the Fund permits. The Fund does not anticipate imposing significant restrictions on transfers to other persons. However, unless any such other person has entered into a relationship with a broker-dealer that has entered into a broker-dealer agreement with the auction agent, that person will not be able to submit bids at auctions with respect to AMPS. Broker-dealers that maintain a secondary trading market for AMPS are not required to maintain this market, and the Fund is not required to redeem AMPS either if an auction or an attempted secondary market sale fails because of a lack of buyers. AMPS are not listed on a stock exchange or the NASDAQ stock market. If you sell your AMPS to a broker-dealer between auctions, you may receive less than the price you paid for them, especially if market interest rates have risen since the last auction.

RATINGS AND ASSET COVERAGE RISK

It is expected that Moody's will assign a rating of "Aaa" to the AMPS and Fitch will assign a rating of "AAA" to the AMPS. Such ratings do not eliminate or necessarily mitigate the risks of investing in AMPS. Moody's or Fitch could downgrade AMPS, which may make your AMPS less liquid at an auction or in the secondary market. If Moody's or Fitch downgrades AMPS, the Fund may alter its portfolio or redeem AMPS in an effort to improve the rating, although there is no assurance that it will be able to do so to the extent necessary to restore the prior rating. The Fund may voluntarily redeem AMPS under certain

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circumstances. See "Description of the AMPS--NRSRO Guidelines and Asset Coverage" for a description of the asset maintenance tests the Fund must meet.

CREDIT RISK

Credit risk is the possibility that an issuer will default on a security by failing to pay interest or principal when due. If an issuer defaults, the Fund will lose money. Many tax exempt securities receive credit ratings from NRSROs such as S&P, Moody's and Fitch. These NRSROs assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher perceived credit risk and higher credit ratings correspond to lower perceived credit risk. Credit ratings do not provide assurance against default or other loss of money. If a security has not received a rating, the Fund must rely entirely upon the Adviser's credit assessment.

Credit risk includes the possibility that a party to a transaction involving the Fund will fail to meet its obligations. This could cause the Fund to lose the benefit of the transaction or prevent the Fund from selling or buying other securities to implement its investment strategy.

RISKS ASSOCIATED WITH NON-INVESTMENT GRADE SECURITIES

Securities rated below investment grade, also known as junk bonds, generally entail greater credit, interest rate and liquidity risks than investment grade securities. For example, their prices are more volatile, economic downturns and financial setbacks may affect their prices more negatively and their trading market may be more limited.

TAX EXEMPT SECURITY MARKET RISK

Investing in the tax exempt securities market involves risks. The amount of public information available about the tax exempt securities in the Fund's portfolio is generally less than that for corporate equities or bonds. Consequently, the Adviser may make investment decisions based on information that is incomplete or inaccurate. The secondary market for tax exempt securities tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its bonds at attractive prices. Special factors, such as legislative changes and local and business developments, may adversely affect the yield or value of the Fund's investments in tax exempt securities.

The ability of municipal issuers to make timely payments of interest and principal may be diminished in general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations or on the ability of municipalities to levy taxes.

REINVESTMENT RISK

Reinvestment risk is the risk that income from the Fund's bond portfolio will decline if and when the Fund invests the proceeds from matured, traded, prepaid or called bonds at market interest rates that are

below the portfolio's current earnings rate. A decline in income could affect the Fund's ability to pay dividends on AMPS.

TAX RISK

In order to be tax exempt, municipal securities must meet certain legal requirements. Failure to meet such requirements may cause the interest received and distributed by the Fund to holders of AMPS to be taxable. Changes or proposed changes in federal tax laws may cause the prices of municipal securities to fall.

The Bush Administration has announced a proposal to eliminate the federal income tax on dividends of income previously taxed at the corporate level. The availability of tax free dividends may reduce the value of, and return on, other tax exempt securities which are the primary focus of the Fund's investment portfolio. Moreover, the proposal may be given a retroactive effect. This change could adversely affect the Fund's shareholders and distributions they receive from the Fund.

The federal income tax treatment of payments in respect of certain derivative contracts is unclear. Additionally, the Fund may not be able to close out certain derivative contracts when it wants to. Consequently, the Fund may receive payments that are treated as ordinary income for federal income tax purposes.

SECTOR RISK

The Fund may invest 25% or more of its total assets in tax exempt securities of issuers in the same economic sector, including without limitation the following: bonds issued by state and local health finance, housing finance, pollution control, industrial development and other authorities or municipal entities for the benefit of hospitals, life care facilities, educational institutions, housing facilities, transportation systems, industrial corporations or utilities. In addition, a substantial part of the Fund may be comprised of securities that are credit enhanced by insurance companies, banks or other similar financial institutions. As a result, the performance of the Fund will be more susceptible to any economic, business, political or other developments that generally affect these sectors or entities.

INFLATION RISK

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of AMPS and dividends can decline. However, during any periods of rising inflation, AMPS dividend rates would likely increase.

MARKET DISRUPTION

As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. securities markets were closed for a four-day period. These terrorist attacks and related events have led to increased market volatility and may have long-term effects on U.S. and world

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economies and markets. A similar disruption of the financial markets would impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors affecting AMPS.

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HOW THE FUND MANAGES RISK

INVESTMENT LIMITATIONS

The Fund has adopted certain investment limitations designed to limit investment risk. These limitations are fundamental and may not be changed without the approval of (1) the holders of a majority of the outstanding Common Shares, AMPS and any other preferred shares that may be issued in the future, voting together as a single class, and (2) the approval of the holders of a majority of the outstanding AMPS and any other preferred shares that may be issued in the future, voting as a separate class.

CONCENTRATION. The Fund will not make investments that will result in the concentration of its investments in the securities of issuers primarily engaged in the same industry, but may invest more than 25% of its total assets in securities of issuers in the same economic sector.

DIVERSIFICATION OF INVESTMENTS. With respect to securities comprising 75% of the value of its total assets, the Fund will not purchase the securities of any one issuer (other than cash, cash items, securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such U.S. government securities and securities of other investment companies) if as a result more than 5% of the value of its total assets would be invested in the securities of that issuer, or it would own more than 10% of the outstanding voting securities of that issuer.

UNDERWRITING. The Fund will not underwrite any issue of securities, except as it may be deemed to be an underwriter under the Securities Act of 1933 in connection with the sale of securities in accordance with its investment objective, policies and limitations.

INVESTING IN REAL ESTATE. The Fund may not buy or sell real estate, although it may invest in tax exempt securities secured by real estate or interests in real estate.

INVESTING IN COMMODITIES. The Fund may not purchase or sell physical commodities, provided that the Fund may purchase securities of companies that deal in commodities. For purposes of this restriction, investments in transactions involving futures contracts and options, swap transactions and other financial contracts that settle by payment of cash are not deemed to be investments in commodities.

LENDING. The Fund will not make loans, but may acquire publicly or non-publicly issued tax exempt securities as permitted by its investment objective, policies and limitations.

BORROWING MONEY AND ISSUING SENIOR SECURITIES. The Fund may borrow money, directly or indirectly, and issue senior securities to the maximum extent permitted under the 1940 Act.

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The Fund may become subject to guidelines which are more restrictive than its investment limitations in order to obtain and maintain ratings from an NRSRO on AMPS. The Fund does not anticipate that such guidelines would have a material adverse effect on the Fund's ability to achieve its investment objective. See "Fundamental Investment Objective, Policy and Limitations" and "Non-Fundamental Investment Limitations" in the Statement of Additional Information for a complete list of the fundamental and non-fundamental investment limitations of the Fund.

QUALITY OF INVESTMENTS

The Fund will invest at least 80% of its total assets in investment grade tax exempt securities.

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HEDGING AND RELATED STRATEGIES

The Fund may use various investment strategies designed to limit the risk of price fluctuations of its portfolio securities and to preserve capital. These hedging strategies may include using financial futures contracts; short sales; swap agreements or options thereon; options on financial futures; options based on either an index of municipal securities or on taxable debt securities whose prices, in the opinion of the Adviser, correlate with the prices of the Fund's investments. Income earned by the Fund from many hedging activities will be treated as capital gain and, if not offset by net realized capital loss, will be distributed to shareholders as taxable distributions. If effectively used, hedging strategies will offset in varying percentages losses incurred on the Fund's investments due to adverse interest rate changes. There is no assurance that these hedging strategies will be available at any time or that the Adviser will determine to use them for the Fund or, if used, that the strategies will be successful.

MANAGEMENT OF THE FUND

TRUSTEES AND OFFICERS

The Board of Trustees ("Board") is responsible for the overall management of the Fund, including supervision of the duties performed by the Adviser. There are twelve Trustees of the Fund. Three of the Trustees are "interested persons," as defined in the Investment Company Act. The name and business addresses of the Trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under "Management of the Fund" in the Statement of Additional Information.

INVESTMENT ADVISER

Federated Investment Management Company acts as the Fund's investment adviser. The Adviser's address is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA 15222-3779.

The Adviser and other subsidiaries of Federated Investors, Inc. ("Federated") advise approximately 138 mutual funds and a variety of separate accounts, which totaled approximately \$195 billion in assets as of December 31,

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2002. Federated was established in 1955 and is one of the largest mutual fund investment managers in the United States, with approximately 1,700 employees. More than 5,000 investment professionals make Federated Funds available to their customers. In the municipal sector, as of December 31, 2002, Federated managed 14 bond funds with approximately \$3.2 billion in assets and 22 money market funds with approximately \$20.6 billion in total assets.

The Fund's Portfolio Managers are:

MARY JO OCHSON. Mary Jo Ochson is the Fund's Portfolio Manager. Ms. Ochson joined Federated in 1982 and has been a Senior Portfolio Manager and a Senior Vice President of the Fund's Adviser since 1996. From 1988 through 1995, Ms. Ochson served as a Portfolio Manager and a Vice President of the Fund's Adviser. Ms. Ochson is a Chartered Financial Analyst and received her M.B.A. in Finance from the University of Pittsburgh.

LEE R. CUNNINGHAM II. Lee R. Cunningham II is the Fund's Portfolio Manager. Mr. Cunningham joined Federated in 1995 as an Investment Analyst and has been a Portfolio Manager since 1998. He was named an Assistant Vice President of the Fund's Adviser in January 1998 and became a Vice President of the Fund's Adviser in July 2000. From 1986 through 1994, Mr. Cunningham was a Project Engineer with Pennsylvania Power and Light Company. Mr. Cunningham received his M.B.A. with concentration in finance and operations from the University of Pittsburgh.

RJ GALLO. RJ Gallo is the Fund's Portfolio Manager. Mr. Gallo joined Federated in 2000 as an Investment Analyst. He was named an Assistant Vice President of the Fund's Adviser in January 2002.

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From 1996 to 2000, Mr. Gallo was a Financial Analyst and Trader at the Federal Reserve Bank of New York. Mr. Gallo received a Master's in Public Affairs with a concentration in economics and public policy from Princeton University.

INVESTMENT MANAGEMENT AGREEMENT

Pursuant to an investment management agreement between the Adviser and the Fund, the Fund has agreed to pay for the investment advisory services and facilities provided by the Adviser a fee at an annual rate equal to 0.55% of the average daily value of Managed Assets (the "Management Fee"). The Adviser has contractually agreed to waive receipt of a portion of its Management Fee in the amount of 0.20% of the average daily value of Managed Assets for the first five years of the Fund's operations (through December 31, 2007), and for a declining amount for an additional three years (through December 31, 2010).

In addition to the Management Fee of the Adviser, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with the Adviser), custodian, transfer and dividend disbursing agent expenses, legal fees, leverage expenses, NRSRO fees, listing fees and expenses, expenses of independent auditors, expenses of repurchasing shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies and taxes, if any.

For the first 8 years of the Fund's operation, the Adviser has undertaken to waive its investment advisory fees and expenses payable by the Fund in the amounts, and for the time periods, set forth below:

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TWELVE MONTH PERIOD ENDING MONTH DATE, YEAR** -----	PERCENTAGE WAIVED (AS A PERCENTAGE OF AVERAGE DAILY MANAGED ASSETS) -----
December 31, 2003	0.20%
December 31, 2004	0.20%
December 31, 2005	0.20%
December 31, 2006	0.20%
December 31, 2007	0.20%
December 31, 2008	0.15%
December 31, 2009	0.10%
December 31, 2010	0.05%

** From the commencement of operations.

ADMINISTRATIVE AGREEMENT

Federated Services Company, a subsidiary of Federated, provides administrative personnel and services, including certain legal and financial reporting services, necessary to operate the Fund. Federated Services Company provides these at the following annual rate of the average aggregate daily net assets of all Federated Funds as specified below:

MAXIMUM ADMINISTRATIVE FEE -----	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS -----
0.150 of 1%	on the first \$250 million
0.125 of 1%	on the next \$250 million
0.100 of 1%	on the next \$250 million
0.075 of 1%	on assets in excess of \$750 million

The administrative fee received during any fiscal year will be at least \$125,000. Federated Services Company may voluntarily waive a portion of its fee and may reimburse the Fund for expenses.

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DESCRIPTION OF THE AMPS

The following is a brief description of the terms of the AMPS. For the complete terms of the AMPS, please refer to the detailed description of the AMPS in the Statement attached as Appendix A to the Statement of Additional Information.

GENERAL

The Fund's Agreement and Declaration of Trust authorizes the issuance of an

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unlimited number of preferred shares, par value \$.01 per share, in one or more classes or series with rights as determined by the Fund's Board without the approval of Common Shareholders. The Statement currently authorizes the issuance of 2,147 AMPS, Series A. The AMPS will have a liquidation preference of \$25,000 per share, plus an amount equal to accumulated but unpaid dividends, whether or not earned or declared.

The AMPS will rank on parity with any other series of preferred shares of the Fund as to the payment of dividends and the distribution of assets upon liquidation. Each of the AMPS carries one vote on matters on which the AMPS can be voted. The AMPS, when issued, will be fully paid and non-assessable and have no preemptive, conversion or cumulative voting rights.

DIVIDENDS AND RATE PERIODS

The following is a general description of dividends and rate periods.

RATE PERIODS. The initial rate period for the AMPS is as set forth below:

INITIAL DIVIDEND RATE -----	DATE OF ACCUMULATION AT INITIAL RATE -----	NUMBER OF DAYS IN INITIAL RATE PERIOD -----
%	, 2003	

Subsequent rate periods for the AMPS will generally be seven days. The Fund, subject to certain conditions, may change the length of subsequent rate periods designating them as special rate periods. See "--Designation of Special Rate Periods" below.

DIVIDEND PAYMENT DATES. Dividends on the AMPS will be payable, when as and if declared by the Board, out of legally available funds in accordance with the Agreement and Declaration of Trust, the Statement and applicable law. Dividends on the AMPS are scheduled to be paid as follows:

INITIAL DIVIDEND PAYMENT DATE -----	SUBSEQUENT DIVIDEND PAYMENT DATES -----
, 2003	Friday

If dividends are payable on a day that is not a business day, then dividends will be payable on the next business day. In addition, the Fund may specify different dividend payment dates for any special rate period of more than 28 rate period days.

Dividends will be paid through the securities depository on each dividend payment date. The securities depository, in accordance with its current procedures, is expected to distribute dividends received from the Fund in next-day funds on each dividend payment date to agent members. These agent members are in turn expected to distribute such dividends to the persons for whom they are acting as agents. However, each of the current Broker-Dealers has

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indicated to the Fund that dividend payments will be available in same-day funds on each dividend payment date to customers that use such Broker-Dealer or that Broker-Dealer's designee as agent member.

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CALCULATION OF DIVIDEND PAYMENT. The Fund computes the dividends per share payable on the AMPS by multiplying the applicable rate in effect for the dividend period by a fraction. The numerator of this fraction will normally be seven (i.e., the number of days in the dividend period), and the denominator will normally be 365. If the Fund has designated a dividend period of other than seven rate period days (by changing the dividend payment dates for a special rate period of more than 28 rate period days), then the numerator will be the number of days in the special dividend period, and the denominator will be 360. In either case, this rate is then multiplied by \$25,000 to arrive at dividends per share of the AMPS.

Dividends on the AMPS will accumulate from the date of their original issue. For each rate period after the initial rate period, the dividend rate will be the dividend rate determined at auction, except that the dividend rate that results from an auction will not be greater than the maximum applicable rate described below.

For a minimum rate period of seven rate period days, the maximum applicable rate for the AMPS will generally be the applicable percentage, set forth in the Applicable Percentage Table below, of the "AA" Financial Composite Commercial Paper Rate for the rate period. The Statement contains special provisions for determining the maximum rate for a minimum rate period in the event the AMPS have had a special rate period of more than 28 rate period days but have not subsequently had an auction at which sufficient clearing bids existed.

For a special rate period of more than seven rate period days, the maximum rate will be the product of the applicable percentage, set forth in the Applicable Percentage Table below, and the highest of:

- the reference rate, set forth in the Reference Rate Table below, for a rate period equal in length to the then ending rate period;
- the reference rate, set forth in the Reference Rate Table below, for a rate period equal in length to the special rate period for which the auction is being held; or
- the "AA" Financial Composite Commercial Paper Rate for a minimum rate period of seven rate period days.

The applicable percentage is determined based on the lower of the prevailing ratings of the AMPS by Moody's or Fitch in effect at the close of business on the business day next preceding the auction date. If neither Moody's nor Fitch shall make such rating available, the rate will be determined by reference to equivalent ratings issued by one or more substitute NRSROs. If the Fund has provided notification to the auction agent prior to an auction establishing the applicable rate for a rate period that net capital gains or other taxable income will be included in the dividend determined at such auction, the applicable percentage will be derived from the column captioned "Applicable Percentage: Notification" in the Applicable Percentage Table below:

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APPLICABLE PERCENTAGE TABLE

PREVAILING RATINGS		APPLICABLE PERCENTAGE	
MOODY'S	FITCH	APPLICABLE PERCENTAGE: NO NOTIFICATION	APPLICABLE PERCENTAGE: NOTIFICATION
"Aa3" or higher	AA- or higher	110%	150%
"A3" to "A1"	A- to A+	125%	160%
"Baa3" to "Baa1"	BBB- to BBB+	150%	250%
"Ba3" to "Ba1"	BB- to BB+	200%	275%
Below "Ba3"	Below BB-	250%	300%

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The reference rate used to determine the maximum applicable rate generally varies depending on the length of the applicable rate period, as set forth in the Reference Rate Table below:

REFERENCE RATE TABLE

RATE PERIOD	REFERENCE RATE
182 days or less	"AA" Financial Composite Commercial Paper Rate
183 days to 364 days	Treasury Bill Rate
365 days or more	Treasury Note Rate

The "AA" Financial Composite Commercial Paper Rate is the interest equivalent of the rate made available by the Federal Reserve for the business day preceding the auction date, as set forth in the table below:

"AA" FINANCIAL COMPOSITE COMMERCIAL PAPER RATE TABLE

MINIMUM RATE PERIOD	SPECIAL RATE PERIOD	"AA" FINANCIAL COMPOSITE COMMERCIAL PAPER RATE
7 days*	48 days or less	30-day rate
	49 days to 69 days	60-day rate
	70 days to 84 days	Average of 60-day and 90-day rates
	85 days to 98 days	90-day rate
	99 days to 119 days	Average of 90-day and 120-day rates
	120 days to 140 days	120-day rate
	141 days to 161 days	Average of 120-day and 180-day rates
	162 days to 182 days	180-day rate

* In the case of a minimum rate period for which all outstanding AMPS are subject to submitted hold orders, the "AA" Financial Composite

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Commercial Paper Rate is the interest equivalent of the seven-day rate.

If the Federal Reserve does not make available any such rate, the rate shall be the average rate quoted by the Commercial Paper Dealers to the auction agent for the close of business on the business day next preceding such date.

If an auction for a rate period is not held for any reason other than a failure by the Fund to timely deposit with the auction agent any dividends or redemption price of the AMPS, the dividend rate for the rate period will generally be the maximum rate for the AMPS on the date the auction was scheduled to be held. The Statement contains special provisions for determining the applicable rate following a failure by the Fund to timely deposit with the auction agent any dividends or redemption price payable on the AMPS.

GROSS-UP PAYMENTS. Under federal income tax rules applicable to the Fund, the Fund may, in certain circumstances, allocate net capital gains or other taxable income to a dividend paid on the AMPS. If the Fund makes such a taxable allocation to a dividend on the AMPS without giving advance notice thereof to the auction agent as described below under "The Auction--Auction Procedures" (a "Retroactive Taxable Allocation"), the Fund will pay to the holders of the AMPS entitled to such dividend, when, as and if declared by the Board out of funds legally available therefor, an additional payment. The additional payment will be in an amount (the "Gross-up Payment") which, when taken together with the aggregate amount of Retroactive Taxable Allocations to which the Gross-up Payment relates, would cause such holder's dividends, after Federal income tax consequences, from the aggregate of such Retroactive Taxable Allocations and the related Gross-up Payment to be equal to the amount of dividends the holder would have received if the Retroactive Taxable Allocations had been excludable from the holder's gross income, provided that the Gross-up Payment will be calculated:

- without consideration being given to the time value of money;
- assuming that no holder of AMPS is subject to AMT with respect to dividends received from the Fund; and

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- assuming that each Retroactive Taxable Allocation and each Gross-up Payment, except to the extent the Gross-up Payment is designated as an exempt-interest dividend, would be taxable in the hands of each holder of AMPS at the maximum marginal regular Federal income tax rate applicable to ordinary income or net capital gain, as applicable, for individuals or corporations, whichever is greater, in effect at the time the Gross-up Payment is made.

The Fund will, within 90 days after the end of its fiscal year for which a Retroactive Taxable Allocation is made, provide notice thereof to the auction agent and direct the Fund's dividend disbursing agent to send such notice and a Gross-up Payment to each registered holder of AMPS that was entitled to such dividend payment during the fiscal year.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS. While the AMPS are outstanding, the Fund may not declare, pay or set apart for payment, any dividend or other distribution in respect of its Common Shares or call for redemption, redeem or purchase or otherwise acquire for consideration any of its Common Shares unless:

- full cumulative dividends on the AMPS through the most recently

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ended dividend period have been paid or shall have been declared and sufficient funds for the payment thereof deposited with the auction agent;

- the Fund has redeemed the full number of AMPS required to be redeemed by any provision for mandatory redemption contained in the Statement; and
- immediately after such transaction, the Discounted Value of the Fund's portfolio would at least equal the Preferred Shares Basic Maintenance Amount in accordance with the guidelines of the NRSROs then rating the AMPS (see "--NRSRO Guidelines and Asset Coverage" below).

The Fund generally may not declare, pay or set apart for payment any dividend on any class or series of shares of the Fund ranking, as to the payment of dividends, on a parity with the AMPS unless the Fund has paid or contemporaneously declares and pays full cumulative dividends on the AMPS through the most recent dividend payment date. However, when the Fund has not paid dividends in full on the AMPS through the most recent dividend payment date or upon any such classes or series of parity shares through their most recent dividend payment dates, all dividends upon the AMPS and any such class or series of parity shares shall be declared pro rata so that the amount of dividends declared per share on the AMPS and such other class or series of shares bear to each other the same ratio that accumulated dividends per share on the AMPS and such other class or series of shares bear to each other.

DESIGNATION OF SPECIAL RATE PERIODS. The Fund may, at its option, designate any rate period for the AMPS after the initial rate period as a special rate period consisting of a specified number of rate period days (other than seven) evenly divisible by seven and not more than 1,820 (approximately five years), subject to certain adjustments. A designation of a special rate period shall be effective only if, among other things, (a) the Fund shall have given certain notices to the auction agent, (b) an auction for the AMPS shall have been held on the auction date immediately preceding the first day of the proposed special rate period and sufficient clearing bids shall have existed in such auction and (c) if the Fund shall have mailed a notice of redemption with respect to any of the AMPS, the redemption price for such shares shall have been deposited with the auction agent. The Fund will give holders of AMPS notice of any special rate period as provided in the Statement.

REDEMPTION

MANDATORY REDEMPTION. In the event the Fund does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the Preferred Shares Basic Maintenance Amount or (b) the Investment Company Act Preferred Shares Asset Coverage, in each case in accordance with the requirements of the NRSROs then rating the AMPS, the AMPS will be subject to mandatory redemption on a date specified by the Board out of funds legally available therefor in accordance with the Declaration and

applicable law, at the redemption price of \$25,000 per share plus an amount equal to accumulated but unpaid dividends thereon to the date fixed for redemption. Any such redemption will be limited to the number of AMPS necessary to restore the required Discounted Value or the Investment Company Act Preferred Shares Asset Coverage, as the case may be.

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OPTIONAL REDEMPTION. The AMPS are redeemable at the option of the Fund, out of funds legally available therefor, at the redemption price of \$25,000 per share plus an amount equal to accumulated but unpaid dividends thereon to the date fixed for redemption:

(a) as a whole or from time to time in part on the second business day preceding any dividend payment date; provided, however, that (i) the AMPS may not be redeemed in part if after such partial redemption fewer than 300 AMPS would remain outstanding; and (ii) the notice establishing a special rate period may provide that the AMPS shall not be redeemable during the whole or any part of such special rate period, except as provided in clause (b) below, or shall be redeemable during the whole or any part of such special rate period only upon payment of such redemption premium or premiums as shall be specified therein; and

(b) as a whole but not in part on the first business day following any dividend period included in a special rate period of more than 364 rate period days if, on the date of determination of the applicable rate for such rate period, such applicable rate equaled or exceeded the Treasury Note Rate for such rate period.

Notwithstanding the foregoing, if any dividends on the AMPS are in arrears, no AMPS shall be redeemed unless all of the outstanding AMPS are simultaneously redeemed, and the Fund shall not purchase or otherwise acquire any of the AMPS; provided, however, that the foregoing shall not prevent the purchase or acquisition of all outstanding AMPS pursuant to the successful completion of an otherwise lawful purchase or exchange offer made on the same terms to, and accepted by, holders of all of the outstanding AMPS.

LIQUIDATION

Subject to the rights of holders of any series or class of shares ranking on a parity with the AMPS with respect to the distribution of assets upon liquidation of the Fund, upon a liquidation of the Fund, whether voluntary or involuntary, the holders of the AMPS then outstanding will be entitled to receive out of the assets of the Fund available for distribution to its shareholders, before any payment or distribution shall be made on the Common Shares, an amount equal to the liquidation preference of \$25,000 per share, plus an amount equal to all dividends thereon accumulated but unpaid to the date of final distribution, together with any applicable Gross-up Payments in connection with the liquidation of the Fund. After the payment to the holders of the AMPS of the full preferential amounts described above, the holders of the AMPS as such shall have no claim to any of the remaining assets of the Fund.

Neither the sale of all or substantially all the property or business of the Fund nor the merger or consolidation of the Fund with any corporation or business trust shall be a liquidation, whether voluntary or involuntary, for the purposes of the preceding paragraph.

NRSRO GUIDELINES AND ASSET COVERAGE

The Fund is required under guidelines of Moody's and Fitch to maintain assets having in the aggregate a Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount. Moody's and Fitch have each established separate guidelines for calculating Discounted Value. To the extent any particular portfolio holding does not satisfy an NRSRO's guidelines, all or a portion of the holding's value will not be included in the calculation of

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Discounted Value, as defined by that NRSRO. The Moody's and Fitch guidelines do not impose any limitations on the percentage of the Fund's assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio. The amount of ineligible assets included in the Fund's portfolio at any time may vary depending upon the rating, diversification and other characteristics of the eligible assets included in the portfolio. The Preferred Shares Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of the AMPS then outstanding and (b) certain accrued and projected payment obligations of the Fund.

The Fund is also required under the Investment Company Act to maintain asset coverage of at least 200% with respect to senior securities which are equity shares, including the AMPS ("Investment Company Act Preferred Shares Asset Coverage"). The Fund's Investment Company Act Preferred Shares Asset Coverage is tested as of the last business day of each month in which any senior equity securities are outstanding. The minimum required Investment Company Act Preferred Shares Asset Coverage amount of 200% may be increased or decreased if the Investment Company Act is amended. Based on the composition of the portfolio of the Fund and market conditions as of February 5, 2003, the Investment Company Act Preferred Shares Asset Coverage, assuming the issuance on that date of all of the AMPS offered hereby and giving effect to the deduction of related sales load and offering costs estimated at \$636,750, would have been computed as follows:

Value of Fund assets less liabilities not constituting senior securities	=	\$140,650,829	=	262%
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Senior securities representing indebtedness plus liquidation value of the AMPS		\$53,675,000		

In the event the Fund does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the Preferred Shares Basic Maintenance Amount or (b) the Investment Company Act Preferred Shares Asset Coverage, in each case in accordance with the requirements of the NRSRO or NRSROs then rating the AMPS, the Fund will be required to redeem the AMPS as described under "--Redemption--Mandatory Redemption" above.

The Fund may, but is not required to, adopt any modifications to the guidelines that may be established by Moody's or Fitch. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any NRSRO providing a rating for the AMPS may, at any time, change or withdraw any such rating. The Board may, without shareholder approval, amend, alter or repeal any or all of the definitions and related provisions of the Statement which have been adopted by the Fund pursuant to the NRSRO guidelines in the event the Fund receives written confirmation from Moody's or Fitch, as the case may be, that any such amendment, alteration or repeal would not impair the rating then assigned to the AMPS.

As described by Moody's and Fitch, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. A rating on the AMPS is not a recommendation to purchase, hold or sell those shares, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The NRSRO guidelines described above also do not address the likelihood that a holder of AMPS will be able to sell such shares in an auction or otherwise. The ratings are

based on current information furnished to Moody's and Fitch by the Fund and the Adviser and information obtained from other sources. A rating may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The Common Shares have not been rated by an NRSRO.

An NRSRO's guidelines will apply to the AMPS only so long as such NRSRO is rating the AMPS. The Fund will pay certain fees to Moody's and Fitch for rating the AMPS.

VOTING RIGHTS

Except as otherwise described in this prospectus and in the Statement of Additional Information or as otherwise required by law, holders of AMPS will have equal voting rights with holders of Common Shares and any other preferred shares (one vote per share) and will vote together with holders of Common Shares and any other preferred shares of the Fund as a single class. There are presently no other preferred shares of the Fund authorized or issued.

Holders of outstanding preferred shares, including the AMPS, voting as a separate class, are entitled to elect two of the Fund's trustees. The remaining trustees are elected by holders of Common Shares and preferred shares, including the AMPS, voting together as a single class. In addition, if on any dividend payment date dividends (whether or not earned or declared) on any outstanding preferred shares, including the AMPS, are due and unpaid in an amount equal to two full years' dividends, and sufficient cash or specified securities have not been deposited with the auction agent for the payment of such dividends, then, the sole remedy of holders of outstanding preferred shares, including the AMPS, is that the number of trustees constituting the Board will be automatically increased by the smallest number that, when added to the two trustees elected exclusively by the holders of preferred shares including the AMPS as described above, would constitute a majority of the Board. The holders of preferred shares, including the AMPS, voting as a separate class, will be entitled to elect that smallest number of additional trustees at a special meeting of holders of preferred shares held as soon as practicable and at all subsequent meetings at which trustees are to be elected. The terms of office of the persons who are trustees at the time of that election will continue. If the Fund thereafter shall pay, or declare and set apart for payment, in full, all dividends payable on all outstanding preferred shares, including the AMPS, these special voting rights will cease, and the terms of office of the additional trustees elected by the holders of preferred shares, including the AMPS, will automatically terminate.

As long as any of the AMPS are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of the AMPS outstanding at the time (voting together as a separate class):

(a) authorize, create or issue any class or series of shares ranking prior to or on a parity with the AMPS with respect to the payment of dividends or the distribution of assets upon liquidation, or authorize, create or issue additional AMPS; except that, notwithstanding the foregoing, the Board, without the vote or consent of the holders of the AMPS, may from time to time authorize and create, and the Fund may from time to time issue, additional AMPS, or classes or series of other preferred shares ranking on a parity with the AMPS with respect to the payment of dividends and the distribution of assets upon liquidation if the Fund receives written confirmation from Moody's (if Moody's is then rating

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the AMPS) and Fitch (if Fitch is then rating the AMPS) or any substitute NRSRO (if such NRSRO is then rating the AMPS) that such authorization, creation and issuance would not impair the rating then assigned by such NRSRO to the AMPS and if, in any event, the Fund would, after giving effect thereto, continue to maintain the Investment Company Act Preferred Shares Asset Coverage; or

(b) amend, alter or repeal the provisions of the Agreement and Declaration of Trust or the Statement, whether by merger, consolidation or otherwise, so as to adversely affect any preference, right or power of the AMPS or the holders of the AMPS; provided, however, that (i) none of the

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actions permitted by the exception to (a) above will be deemed to affect such preferences, rights or powers, (ii) a division or split of the AMPS will be deemed to affect such preferences, rights or powers only if the terms thereof adversely affect the holders of the AMPS and (iii) the authorization, creation and issuance of classes or series of shares ranking junior to the AMPS with respect to the payment of dividends and the distribution of assets upon liquidation of the Fund, will be deemed to affect such preferences, rights or powers only if Moody's or Fitch is then rating the AMPS and such issuance would, at the time thereof, cause the Fund not to satisfy the Investment Company Act Preferred Shares Asset Coverage or the Preferred Shares Basic Maintenance Amount; or

(c) file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent.

Unless a higher percentage is provided for in the Agreement and Declaration of Trust (see "Certain Provisions in the Agreement and Declaration of Trust"), the affirmative vote of the holders of "a majority of the outstanding," as defined in the Investment Company Act, preferred shares, including the AMPS, voting as a separate class, shall be required to approve (A) any plan of reorganization, as such term is used in the Investment Company Act, adversely affecting such shares and (B) any action requiring a vote of security holders of the Fund under Section 13(a) of the Investment Company Act.

The foregoing voting provisions will not apply with respect to AMPS if, at or prior to the time when a vote is required, such shares have been (i) redeemed or (ii) called for redemption and sufficient funds have been deposited in trust to effect such redemption.

THE AUCTION

GENERAL

The Statement provides that, except as otherwise described in this prospectus, the applicable dividend rate for the AMPS for each rate period after the initial rate period will be the rate that results from an auction conducted as set forth in the Statement and summarized below. In such an auction, persons determine to hold or offer to sell or, based on dividend rates bid by them, offer to purchase or sell AMPS. See the Statement included in the Statement of Additional Information for a more complete description of the auction process.

AUCTION AGENCY AGREEMENT. The Fund will enter into an auction agency agreement with the auction agent, currently Deutsche Bank Trust Company

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Americas, which provides, among other things, that the auction agent will follow the auction procedures set forth in the Statement to determine the applicable rate for the AMPS, so long as the applicable rate is to be based on the results of an auction.

The auction agent may terminate the auction agency agreement upon 45 days' notice to the Fund. If the auction agent should resign, the Fund will use its best efforts to enter into an agreement with a successor auction agent. The Fund may remove the auction agent provided that, prior to removal, the Fund has entered into a replacement agreement with a successor auction agent.

BROKER-DEALER AGREEMENTS. Each auction requires the participation of one or more Broker-Dealers. The auction agent will enter into agreements with one or more Broker-Dealers selected by the Fund, which provide for the participation of those Broker-Dealers in auctions for the AMPS.

The auction agent will pay to each Broker-Dealer after each auction, from funds provided by the Fund, a service charge at the annual rate of 1/4 of 1% in the case of any auction before a rate period of

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seven days, or a percentage agreed to by the Fund and the Broker-Dealer in the case of any auction before a special rate period, of the purchase price of AMPS placed by such Broker-Dealer at the auction.

The Fund may request the auction agent to terminate one or more Broker-Dealer Agreements at any time, provided that at least one Broker-Dealer Agreement is in effect after termination of the agreement.

AUCTION PROCEDURES

Prior to the submission deadline on each auction date for the AMPS, each customer of a Broker-Dealer who is listed on the records of that Broker-Dealer, or, if applicable, the auction agent, as a beneficial owner of AMPS may submit the following types of orders with respect to AMPS to that Broker-Dealer.

1. HOLD ORDER - indicating its desire to hold AMPS without regard to the applicable rate for the next rate period.
2. BID - indicating its desire to sell AMPS at \$25,000 per share if the applicable rate for the next rate period is less than the rate specified in the bid.
3. SELL ORDER - indicating its desire to sell AMPS at \$25,000 per share without regard to the applicable rate for the next rate period.

A beneficial owner may submit different types of orders to its Broker-Dealer with respect to AMPS then held by the beneficial owner. A beneficial owner that submits a bid to its Broker-Dealer having a rate higher than the maximum applicable rate for the AMPS on the auction date will be treated as having submitted a sell order. A beneficial owner that fails to submit an order to its Broker-Dealer with respect to any AMPS beneficially owned will ordinarily be deemed to have submitted a hold order with respect to such shares. However, if a beneficial owner fails to submit to its Broker-Dealer an order with respect to any AMPS for an auction relating to a special rate period of more than 28 rate period days, such beneficial owner will be deemed to have submitted a sell order to its Broker-Dealer with respect to such shares. A sell order constitutes an irrevocable offer to sell the AMPS subject to the sell order. A beneficial owner that offers to become the beneficial owner of

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additional AMPS is, for purposes of such offer, a potential beneficial owner as discussed below.

A potential beneficial owner is a customer of a Broker-Dealer either that is not a beneficial owner of AMPS but wishes to purchase AMPS or that is a beneficial owner of AMPS and wishes to purchase additional AMPS. A potential beneficial owner may submit bids to its Broker-Dealer in which it offers to purchase AMPS at \$25,000 per share if the applicable rate for the next rate period is not less than the rate specified in such bid. A bid placed by a potential beneficial owner specifying a rate higher than the maximum applicable rate for the AMPS on the auction date will not be accepted.

The Broker-Dealers in turn will submit to the auction agent the orders of their respective customers who are beneficial owners and potential beneficial owners. They will designate themselves, unless otherwise permitted by the Fund, as existing holders of shares subject to orders submitted or deemed submitted to them by beneficial owners. They will designate themselves as potential holders of shares subject to orders submitted to them by potential beneficial owners. However, neither the Fund nor the auction agent will be responsible for a Broker-Dealer's failure to comply with these procedures. Any order placed with the auction agent by a Broker-Dealer as an existing holder or a potential holder will be treated the same way as an order placed with a Broker-Dealer by a beneficial owner or potential beneficial owner. Similarly, any failure by a Broker-Dealer to submit to the auction agent an order in respect of any AMPS held by its customers who are beneficial owners will be treated in the same manner as a beneficial owner's failure to submit to its Broker-Dealer an order in respect of AMPS held by it. A Broker-Dealer may also

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submit orders to the auction agent for its own account as an existing holder or potential holder, provided it is not an affiliate of the Fund.

There are sufficient clearing bids in an auction if the number of AMPS subject to bids submitted or deemed submitted to the auction agent by Broker-Dealers for potential holders with rates equal to or lower than the maximum applicable rate is at least equal to the number of AMPS subject to sell orders submitted or deemed submitted to the auction agent by Broker-Dealers for existing holders. If there are sufficient clearing bids in an auction, the applicable rate for the next succeeding rate period will be the lowest rate specified in the submitted bids which, taking into account such rate and all lower rates bid by Broker-Dealers as existing holders and potential holders, would result in existing holders and potential holders owning the AMPS available for purchase in the auction.

If there are not sufficient clearing bids in an auction, the applicable rate for the next rate period will be the maximum applicable rate for the AMPS on the auction date. If this happens, beneficial owners of AMPS that have submitted or are deemed to have submitted sell orders may not be able to sell in the auction all shares subject to such sell orders.

If all of the outstanding AMPS are the subject of submitted or deemed submitted hold orders, then the applicable rate for the next rate period will then be the product of:

- (i) if the applicable rate period is less than 183 days, the "AA" Financial Composite Commercial Paper Rate, (ii) if the applicable rate period is more than 182 days but fewer than 365 days, the Treasury Bill Rate or (iii) if the applicable rate period is more than 364 days, the Treasury Note Rate (such rate, as applicable,

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being referred to as the "Benchmark Rate"); multiplied by

- 1 minus the maximum marginal regular federal individual income tax rate applicable to ordinary income or the maximum marginal regular federal corporate income tax rate applicable to ordinary income, whichever is greater.

If the applicable rate period is less than 183 days and the Kenny Index is less than the amount determined above for a rate period of less than 183 days, then the applicable rate for an all hold period will be the rate equal to the Kenny Index.

The "Kenny Index" is the Kenny S&P 30 day High Grade Index or any successor index.

The "Treasury Bill Rate" is on any date (i) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned Treasury bill with a remaining maturity closest to the length of such rate period, as quoted in THE WALL STREET JOURNAL on such date for the business day next preceding such date or (ii) in the event that any such rate is not published in THE WALL STREET JOURNAL, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned Treasury bill with a remaining maturity closest to the length of such rate period, as determined by bid price quotations as of the close of business on the business day immediately preceding such date obtained by the auction agent.

The "Treasury Note Rate" is on any date (i) the yield on the most recently auctioned Treasury note with a remaining maturity closest to the length of such rate period, as quoted in THE WALL STREET JOURNAL on such date for the business day next preceding such date or (ii) in the event that any such rate is not published in THE WALL STREET JOURNAL, then the yield as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned Treasury note with a remaining maturity closest to the length of such rate period, as determined by bid price quotations as of the close of business on the business day immediately preceding such date obtained by the auction agent.

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If all of the AMPS are subject to hold orders and the Fund has notified the auction agent of its intent to allocate to the AMPS any net capital gains or other income taxable for federal income tax purposes ("Taxable Income"), the applicable rate for the AMPS for the applicable rate period will be (i) if the Taxable Yield Rate is greater than the Benchmark Rate, then the Benchmark Rate, or (ii) if the Taxable Yield Rate is less than or equal to the Benchmark Rate, then the rate equal to the sum of (x) the lesser of the Kenny Index (if the applicable rate period is less than 183 days) or the amount determined pursuant to the two bullet points above, and (y) the product of the maximum marginal regular federal individual income tax rate applicable to ordinary income or the maximum marginal regular federal corporate income tax rate applicable to ordinary income, whichever is greater, multiplied by the Taxable Yield Rate.

The "Taxable Yield Rate" is the rate determined by (i) dividing the amount of Taxable Income available for distribution on each share of the AMPS by the number of days in the rate period in respect of which the Taxable Income is contemplated to be distributed, (ii) multiplying the amount determined in (i) by 365 (in the case of a dividend period of 7 rate period days) or 360 (in the case of any other dividend period and (iii) dividing the amount determined in (ii) by

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\$25,000.

The auction procedure includes a pro rata allocation of shares for purchase and sale, which may result in an existing holder continuing to hold or selling, or a potential holder purchasing, a number of AMPS that is different than the number of shares specified in its order. To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as existing holders or potential holders in respect of customer orders will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next business day, which is also a dividend payment date, after the auction date through Depository Trust Company (DTC). Purchasers will make payment through their agent members in same-day funds to DTC against delivery to their respective agent members. DTC will make payment to the sellers' agent members in accordance with DTC's normal procedures, which now provide for payment against delivery by their agent members in same-day funds.

The auctions for the AMPS will normally be held every Thursday, and each subsequent rate period will normally begin on the following Friday.

If an auction date is not a business day because the New York Stock Exchange is closed for business for more than three consecutive business days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the auction agent is not able to conduct an auction in accordance with the auction procedures for any such reason, then the applicable rate for the next rate period will be the applicable rate determined on the previous auction date.

If a dividend payment date is not a business day because the New York Stock Exchange is closed for business for more than three consecutive business days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services, or the dividend payable on such date can not be paid for any such reason then:

- the dividend payment date for the affected dividend period will be the next business day on which the Fund and its paying agent, if any, can pay the dividend;
- the affected dividend period will end on the day it otherwise would have ended; and
- the next dividend period will begin and end on the dates on which it otherwise would have begun and ended.

Whenever the Fund intends to include any net capital gains or other income taxable for federal income tax purposes in any dividend on the AMPS, the Fund may notify the auction agent of the amount to

be so included not later than the dividend payment date before the auction date. Whenever the auction agent receives such notice from the Fund, it will be required in turn to notify each Broker-Dealer, who, on or prior to such auction date, will be required to notify its customers who are beneficial owners and potential beneficial owners believed by it to be interested in submitting an

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order in the auction to be held on such auction date. In the event of such notice to the auction agent, the Fund will not be required to pay any Gross-up Payment with respect to such dividend.

SECONDARY MARKET TRADING AND TRANSFERS OF AMPS

The Broker-Dealers are expected to maintain a secondary trading market in the AMPS outside of auctions, but are not obligated to do so, and may discontinue such activity at any time. There can be no assurance that any secondary trading market in the AMPS will provide owners with liquidity of investment. The AMPS are not listed on any stock exchange or authorized for trading on the Nasdaq Stock Market. Investors who purchase shares in an auction for a special rate period should note that because the dividend rate on such shares will be fixed for the length of such rate period, the value of the shares may fluctuate in response to changes in interest rates and may be more or less than their original cost if sold on the open market in advance of the next auction.

A beneficial owner or an existing holder may sell, transfer or otherwise dispose of AMPS only in whole shares and only:

- pursuant to a bid or sell order placed with the auction agent in accordance with the auction procedures;
- to a Broker-Dealer; or
- to such other persons as may be permitted by the