

HYPERION STRATEGIC MORTGAGE INCOME FUND INC
Form N-Q
October 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21102

The Hyperion Strategic Mortgage Income Fund, Inc.

(Exact name of registrant as specified in charter)

One Liberty Plaza, 165 Broadway, 36th Fl., New York, NY 10006-1404

(Address of principal executive offices)

(Zip code)

Thomas F. Doodian One Liberty Plaza, 165 Broadway, New York, NY 10006-1404

(Name and address of agent for service)

Registrant's telephone number, including area code: 212-549-8400

Date of fiscal year end: November 30, 2005

Date of reporting period: August 31, 2005

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (Sections 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

Item 1. Schedule of Investments

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
 PORTFOLIO OF INVESTMENTS - (UNAUDITED)
 August 31, 2005

	Interest Rate	Maturity	Principal Amount (000s)
	-----	-----	-----
U.S. GOVERNMENT & AGENCY OBLIGATIONS - 67.2%			
U.S. GOVERNMENT AGENCY PASS -THROUGH CERTIFICATES - 60.2%			
Federal Home Loan Mortgage Corporation			
Pool A14559	6.50%	09/01/33	\$ 2,377
Pool C68878	7.00	06/01/32	503
Pool C69047	7.00	06/01/32	1,137
Pool G01466	9.50	12/01/22	1,472
Pool 555559	10.00	03/01/21	1,571
Federal National Mortgage Association			
Pool 694391	5.50	03/01/33	4,116 @
Pool 753914	5.50	12/01/33	10,084 @
Pool 754355	6.00	12/01/33	6,626 @
Pool 761836	6.00	06/01/33	3,906
Pool 763643	6.00	01/01/34	8,093 @
Pool 255413	6.50	10/01/34	10,619 @
Pool 323982	6.50	10/01/06	409
Pool 795367	6.50	09/01/34	5,483
Pool 809989	6.50	03/01/35	4,955 @
Pool 626299	7.00	06/01/32	602
Pool 635095	7.00	06/01/32	1,018
Pool 641575	7.00	04/01/32	519
Pool 645399	7.00	05/01/32	2,843 @
Pool 645466	7.00	05/01/32	2,691 @
Pool 650131	7.00	07/01/32	1,587
Pool 398800	8.00	06/01/12	752
Pool 827854	8.00	10/01/29	3,219
Pool 636449	8.50	04/01/32	2,479
Pool 823757	8.50	10/01/29	4,816
Pool 458132	9.41	03/15/31	2,064
TOTAL U.S. GOVERNMENT AGENCY PASS -THROUGH CERTIFICATES			
(Cost - \$87,789,784)			
U.S. TREASURY OBLIGATIONS - 7.0%			
United States Treasury Notes			
	4.00	02/15/15	1,173
	4.25	11/15/14	8,800 @
TOTAL U.S. TREASURY OBLIGATIONS			
(Cost - \$10,014,441)			

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS
(Cost - \$97,804,225)

ASSET-BACKED SECURITIES - 26.1%

HOUSING RELATED ASSET-BACKED SECURITIES - 24.3%

Asset Backed Funding Certificates

Series 2005-AQ1, Class B1*(b)	5.75/6.25	06/25/35	993
Series 2005-AQ1, Class B2*(b)	5.75/6.25	06/25/35	1,050

Bank of America Funding Corp.

Series 2005-2, Class B4*	5.66+	04/25/35	877
Series 2005-2, Class B5*	5.66+	04/25/35	702
Series 2005-2, Class B6*	5.66+	04/25/35	528

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
PORTFOLIO OF INVESTMENTS - (UNAUDITED)
August 31, 2005

	Interest Rate	Maturity	Principal Amount (000s)
Equity One ABS, Inc.			
Series 2003-4, Class B2	8.39%+	11/25/33	\$ 139
First Franklin Mortgage Loan Asset Backed Certificates			
Series 2003-FFH1, Class M4(a)	7.14+	09/25/33	4,740
Series 2004-FFH1, Class B*(a)	7.14+	03/25/34	1,550
Series 2004-FF2, Class B*(a)	7.14+	03/25/34	900
Series 2004-FFH2C, Class B1*(a)	7.14+	06/25/34	1,250
Series 2004-FF8, Class B4*(a)	7.14+	10/25/34	1,250
Green Tree Financial Corp.			
Series 1997-3, Class M1	7.53	03/15/28	2,000
Series 1995-6, Class M1	8.10	09/15/26	4,325
Harborview Mortgage Loan Trust			
Series 2005-1, Class B4*(a)	5.34+	03/19/35	629
Series 2005-1, Class B5*(a)	5.34+	03/19/35	914
Series 2005-1, Class B6*(a)	5.34+	03/19/35	1,144
Series 2005-2, Class B4*(a)	5.34+	05/19/35	1,488

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

Long Beach Mortgage Loan Trust			
Series 2002-5, Class M3(a)	6.89+	11/25/32	2,500
Mid-State Trust			
Series 2004-1, Class M2	8.11	08/15/37	1,644
Structured Asset Investment Loan Trust			
Series 2004-4, Class B*(b)	5.00/5.50	04/25/34	1,500
Series 2004-11, Class M9(b)	5.00/5.50	01/25/35	1,900
Series 2004-7, Class B(a)	6.14+	08/25/34	2,161
Series 2004-8, Class B1(a)	6.14+	09/25/34	1,000
Series 2004-10, Class M7(a)	6.14+	11/25/34	2,000
Series 2004-2, Class B*(a)	6.64+	03/25/34	1,074

Structured Asset Securities Corporation			
Series 2005-6, Class B5	5.34+	05/25/35	498
Series 2005-6, Class B6	5.34+	05/25/35	498
Series 2005-6, Class B7	5.34+	05/25/35	349

TOTAL HOUSING RELATED ASSET-BACKED SECURITIES
(Cost - \$35,163,605)

NON-HOUSING RELATED ASSET- BACKED SECURITIES - 1.8%

Airplanes Pass Through Trust			
Series 1R, Class A8			
(Cost - \$2,421,227)	3.95+	03/15/19	2,805

TOTAL ASSET-BACKED SECURITIES
(Cost - \$37,584,832)

COMMERCIAL MORTGAGE BACKED SECURITIES - 18.7%

Bear Stearns Commercial Mortgage Securities			
Series 1999-C1, Class D	6.53	02/14/31	2,500
Series 2000-WF1, Class E	8.14+	02/15/32	2,000

Chase Commercial Mortgage Securities Corp.

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
PORTFOLIO OF INVESTMENTS - (UNAUDITED)
August 31, 2005

	Interest Rate	Maturity	Principal Amount (000s)
	-----	-----	-----
Series 2000-2, Class I*	6.65%	07/15/32	\$ 1,000

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

GE Capital Commercial Mortgage Corp.			
Series 2002-2A, Class G*	6.04	08/11/36	3,000
Series 2000-1, Class G*	6.13	01/15/33	1,000
Series 2002-2A, Class H*	6.31	08/11/36	2,000
Series 2000-1, Class E	7.44+	01/15/33	1,000
JP Morgan Chase Commercial Mortgage Securities			
Series 2003-LN1, Class G*	5.65+	10/15/37	1,600
JP Morgan Commercial Mortgage Finance Corp.			
Series 1999-C7, Class F*	6.00	10/15/35	2,000
Morgan Stanley Capital I			
Series 1999-FNV1, Class E	7.72+	03/15/31	2,000
Nationslink Funding Corp.			
Series 1998-2, Class E	7.11	08/20/30	4,000
UBS 400 Atlantic Street Mortgage Trust			
Series 2002-C1A, Class B3*	7.19	01/11/22	2,000
Wachovia Bank Commercial Mortgage Trust			
Series 2004-WL4A, Class H*	4.42+	10/15/15	700
Series 2005-C16, Class H*	5.48+	10/15/41	2,000
TOTAL COMMERCIAL MORTGAGE BACKED SECURITIES			
(Cost - \$26,953,906)			
NON-AGENCY RESIDENTIAL MORTGAGE BACKED SECURITIES - 26.3%			
SUBORDINATED COLLATERALIZED MORTGAGE OBLIGATIONS - 26.3%			
Bank of America Alternative Loan Trust			
Series 2004-3, Class 30B4	5.50	04/25/34	999
Series 2004-3, Class 30B5	5.50	04/25/34	699
Bank of America Mortgage Securities, Inc.			
Series 2004-A, Class B4	3.92+	02/25/34	2,047
Series 2002-H, Class B4	4.71+	08/25/32	184
Series 2002-H, Class B5	4.71+	08/25/32	122
Series 2002-H, Class B6	4.71+	08/25/32	306
Series 2003-10, Class 1B4	5.50	01/25/34	560
Series 2002-10, Class 1B3	6.00	11/25/32	1,448
Series 2002-9, Class 1B3	6.25	10/25/32	1,737
Series 2002-9, Class 1B4	6.25	10/25/32	1,158
Cendant Mortgage Corp.			
Series 2002-4, Class B1	6.50	07/25/32	2,594
Series 2002-4, Class B2	6.50	07/25/32	1,038
Series 2002-4, Class B3	6.50	07/25/32	605
Series 2002-4, Class B4	6.50	07/25/32	346
Series 2002-4, Class B5	6.50	07/25/32	259
Series 2002-4, Class B6*	6.50	07/25/32	346

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

First Horizon Alternative Mortgage Securities

Series 2005-AA6, Class B4	5.50+	08/25/35	850
Series 2005-AA6, Class B5	5.50+	08/25/35	800
Series 2005-AA6, Class B6	5.50+	08/25/35	500

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
 PORTFOLIO OF INVESTMENTS - (UNAUDITED)
 August 31, 2005

	Interest Rate	Maturity	Principal Amount (000s)
	-----	-----	-----
First Horizon Mortgage Pass-Through Trust			
Series 2005-4, Class B4*	5.45%+	07/25/35	\$ 428
Series 2005-3, Class B4	5.50	06/25/35	458
G3 Mortgage Reinsurance Ltd.			
Series 1, Class E*	23.60+	05/25/08	4,244
JP Morgan Mortgage Trust			
Series 2003-A1, Class B4	4.49+	10/25/33	536
Residential Finance Limited Partnership			
Series 2002-A, Class B7	9.27+	10/10/34	1,931
Residential Funding Mortgage Securities I, Inc.			
Series 2004-S1, Class B2	5.25	02/25/34	453
Series 2003-S7, Class B3	5.50	05/25/33	321
Series 2003-S7, Class B2	5.50	05/25/33	529
Resix Finance Limited Credit-Linked Note			
Series 2004-C, Class B7*	7.07+	09/10/36	988
Series 2004-B, Class B8*	8.32+	02/10/36	801
Series 2003-CB1, Class B8*	10.30+	06/10/35	967
Series 2004-B, Class B9*	11.80+	02/10/36	1,227
Series 2004-A, Class B10*	15.10+	02/10/36	490
Structured Asset Mortgage Investments, Inc.			
Series 2002-AR1, Class B4	5.14+	03/25/32	726
Washington Mutual Mortgage Securities Corp.			
Series 2002-AR12, Class B4	4.68+	10/25/32	1,006
Series 2002-AR12, Class B5	4.68+	10/25/32	755
Series 2002-AR12, Class B6	4.68+	10/25/32	1,259
Series 2005-AR2, Class B10(a)	4.75+	01/25/45	1,793

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

Series 2002-AR10, Class B4*	4.96+	10/25/32	1,144
Series 2002-AR10, Class B5*	4.96+	10/25/32	858
Series 2002-AR10, Class B6*	4.96+	10/25/32	1,431
Series 2002-AR11, Class B5	5.13+	10/25/32	694
Series 2002-AR11, Class B6	5.13+	10/25/32	1,156

Wells Fargo Mortgage Backed Securities Trust Series 2002, Class B5	6.00	06/25/32	361
---	------	----------	-----

TOTAL SUBORDINATED COLLATERALIZED MORTGAGE OBLIGATIONS
(Cost - \$36,081,848)

TOTAL NON-AGENCY RESIDENTIAL MORTGAGE BACKED SECURITIES
(Cost - \$36,081,848)

GOVERNMENT AND AGENCY SECURITIES - 1.4%
SHORT TERM INVESTMENTS - 1.4%

Federal Home Loan Bank Consolidated Discount Note (Cost - \$1,999,083)	3.32	09/06/05	1,999
---	------	----------	-------

TOTAL INVESTMENTS - 139.7%
(Cost - \$200,423,894)

LIABILITIES IN EXCESS OF OTHER ASSETS - (39.7)%

NET ASSETS - 100.0%

See notes to financial statements.

- @ - Portion or entire principal amount delivered as collateral for reverse repurchase agreements.
- + - Variable Rate Security: Interest rate is the rate in effect August 31, 2005.
- * - Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may only be resold in transactions exempt from registration, normally to qualified institutional buyers.
- # - Portion or entire principal amount is held as collateral for open futures contracts.
- (a) - Security is a "step up" bond where coupon increases or steps up at a predetermined date. At that date these coupons increase to LIBOR plus a predetermined margin
- (b) - Security is a "step up" bond where coupon increases or steps up at a predetermined date. Rates shown are current coupon and next coupon rate when security steps up.

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
August 31, 2005

Valuation of Investments: Where market quotations are readily available, securities held by the Fund are valued based upon the current bid price, except preferred stocks, which are valued based upon the closing price. Securities may be valued by independent pricing services that have been approved by the Board of Directors. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. The Fund values mortgage-backed securities ("MBS") and other debt securities for which market quotations are not readily available (approximately 29% of the investments in securities held by the Fund at August 31, 2005) at their fair value as determined in good faith, utilizing procedures approved by the Board of Directors of the Fund, on the basis of information provided by dealers in such securities. Some of the general factors which may be considered in determining fair value include the fundamental analytic data relating to the investment and an evaluation of the forces which influence the market in which these securities are purchased and sold. Determination of fair value involves subjective judgment, as the actual market value of a particular security can be established only by negotiations between the parties in a sales transaction. Debt securities having a remaining maturity of sixty days or less when purchased and debt securities originally purchased with maturities in excess of sixty days but which currently have maturities of sixty days or less are valued at amortized cost.

The ability of issuers of debt securities held by the Fund to meet their obligations may be affected by economic developments in a specific industry or region. The values of MBS can be significantly affected by changes in interest rates or in the financial condition of an issuer or market.

Reverse Repurchase agreements: The Fund may enter into reverse repurchase agreements with the same parties with whom it may enter into repurchase agreements. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Under the 1940 Act, reverse repurchase agreements will be regarded as a form of borrowing by the Fund unless, at the time it enters into a reverse repurchase agreement, it establishes and maintains a segregated account with its custodian containing securities from its portfolio having a value not less than the repurchase price (including accrued interest). The Fund has established and maintained such an account for each of its reverse repurchase agreements.

Reverse repurchase agreements involve the risk that the market value of the securities retained in lieu of sale by the Fund may decline below the price of the securities the Fund has sold but is obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision.

At August 31, 2005, the Fund had the following reverse repurchase agreements outstanding:

FACE VALUE	DESCRIPTION	MATUR AMOU
-----	-----	-----

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

\$ 2,928,000	CS First Boston 3.59%, dated 08/16/05, maturity date 09/21/05	\$ 2,93
10,635,000	Goldman Sachs 3.58%, dated 08/08/05, maturity date 09/07/05	10,66
6,567,000	Goldman Sachs 3.60%, dated 08/29/05, maturity date 09/07/05	6,57
9,853,000	Lehman Brothers 3.56%, dated 08/17/05, maturity date 09/15/05	9,88
8,844,000	Lehman Brothers 3.45%, dated 08/25/05, maturity date 09/08/05	8,85
4,020,000	Morgan Stanley 3.58%, dated 08/16/05, maturity date 09/20/05	4,03
2,832,000	Morgan Stanley 3.60%, dated 08/30/05, maturity date 09/08/05	2,83
8,043,000	Wachovia Capital Markets 3.59%, dated 08/17/05, maturity date 09/19/05	8,06
4,980,000	Wachovia Capital Markets 3.59%, dated 08/18/05, maturity date 09/19/05	4,99

\$58,702,000
=====

Maturity Amount, Including Interest Payable

\$58,84

THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.
August 31, 2005

Market Value of Assets Sold Under Agreements

\$60,27

Weighted Average Interest Rate

The average daily balance of reverse repurchase agreements outstanding during the three months ended August 31, 2005, was approximately \$73,721,489 at a weighted average interest rate of 3.28%. The maximum amount of reverse repurchase agreements outstanding at any time during the period was \$72,964,960 as of June 10, 2005, which was 33.02% of total assets.

Swap agreements: The Fund may enter into interest rate swap agreements to manage its exposure to interest rates. Interest rate swap agreements involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The Fund will usually enter into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Swaps are marked to market based upon quotations from market makers and the change, if any, along with an accrual for periodic payments due or owed is recorded as unrealized gain or loss in the Statement of Operations. Net payments of interest on interest rate swap agreements are included as part of realized gain/loss in the Statement of Operations. Entering into these agreements involves, to varying degrees, elements of credit and market risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or that there may be unfavorable changes in the fluctuation of interest rates.

As of August 31, 2005, the following swap agreements were outstanding:

EXPIRATION

NET UNREAL
APPRECIAT

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

NOTIONAL AMOUNT	DATE	DESCRIPTION	(DEPRECIAT
11,000,000	12/15/14	Agreement with Morgan Stanley Capital Services, Inc., dated 12/13/04 to pay semi-annually the notional amount multiplied by 4.555% and to receive quarterly the notional amount multiplied by 3 month USD-LIBOR-BBA.	(76
			\$ (76

Item 2. Controls and Procedures.

- (a) The Registrant's principal executive officer and principal financial officer have concluded that the Registrant's Disclosure Controls and Procedures are effective, based on their evaluation of such Disclosure Controls and Procedures as of a date within 90 days of the filing of this report on Form N-Q.
- (b) As of the date of filing this Form N-Q, the Registrant's principal executive officer and principal financial officer are aware of no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal quarter that has materially affected or is reasonably likely to materially affect the Registrant's internal control over financial reporting.

Item 3. Exhibits

- (a) Certifications for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act. Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.

By: /s/ Clifford E. Lai
 Clifford E. Lai
 Principal Executive Officer

Date: October 31, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Edgar Filing: HYPERION STRATEGIC MORTGAGE INCOME FUND INC - Form N-Q

By: /s/ Clifford E. Lai
Clifford E. Lai
Principal Executive Officer

Date: October 31, 2005

By: /s/ Thomas F. Doodian
Thomas F. Doodian
Treasurer and Principal Financial Officer

Date: October 31, 2005