

HYPERION STRATEGIC MORTGAGE INCOME FUND INC  
Form N-Q  
October 29, 2004

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  
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The Hyperion Strategic Mortgage Income Fund, Inc.  
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(Exact name of registrant as specified in charter)

One Liberty Plaza, 165 Broadway, 36th Fl., New York, NY 10006-1404  
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(Address of principal executive offices)

(Zip code)

Thomas F. Doodian One Liberty Plaza, 165 Broadway, New York, NY 10006-1404  
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(Name and address of agent for service)

Registrant's telephone number, including area code: 212-549-8400  
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Date of fiscal year end: November 30, 2004  
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Date of reporting period: August 31, 2004  
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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

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 THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.  
 PORTFOLIO OF INVESTMENTS - (UNAUDITED)  
 August 31, 2004

	Interest Rate	Maturity	Princip Amount (000s)
-----			
U.S. GOVERNMENT & AGENCY OBLIGATIONS - 50.6%			
U.S. GOVERNMENT AGENCY PASS-THROUGH CERTIFICATES - 50.6%			
Federal Home Loan Mortgage Corporation			
Pool C68878 .....	7.00%	06/01/32	\$ 62
Pool C69047 .....	7.00	06/01/32	1,62
Pool G01466 .....	9.50	12/01/22	2,06
Pool 555538 .....	10.00	03/01/21	1,86
Federal National Mortgage Association			
Pool 694391 .....	5.50	03/01/33	5,20
Pool 753914 .....	5.50	12/01/33	12,53
Pool 754355 .....	6.00	12/01/33	9,49
Pool 761836 .....	6.00	06/01/33	6,88
Pool 763643 .....	6.00	01/01/34	9,30
Pool 323982 .....	6.50	10/01/06	71
Pool 626299 .....	7.00	06/01/32	1,05
Pool 635095 .....	7.00	06/01/32	1,52
Pool 641575 .....	7.00	04/01/32	72
Pool 645399 .....	7.00	05/01/32	3,38
Pool 645466 .....	7.00	05/01/32	3,74
Pool 650131 .....	7.00	07/01/32	1,99
Pool 398800 .....	8.00	06/01/12	1,03
Pool 636449 .....	8.50	04/01/32	4,62
Pool 458132 .....	9.41+	03/15/31	2,90
TOTAL U.S. GOVERNMENT AGENCY PASS -THROUGH CERTIFICATES			
(Cost - \$74,148,343) .....			
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS			
(Cost - \$74,148,343) .....			
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ASSET-BACKED SECURITIES - 26.0%			
HOUSING RELATED ASSET-BACKED SECURITIES - 26.0%			
Argent Securities, Inc.			
Series 2004-W3, Class M5*(a) .....	3.91+	02/25/34	1,20
Asset Backed Funding Corp.			
Series 2003-OPT1, Class M4(a) .....	4.41+	07/25/32	3,00
Equity One ABS, Inc.			
Series 2003-4, Class B2.....	6.36+	11/25/33	1,00
First Franklin Mortgage Loan Asset Backed Certificates			
Series 2004-FF4, Class M2(a) .....	2.87+	06/25/34	2,00
Series 2003-FF4, Class M4(a) .....	4.51+	10/25/33	3,00
Series 2003-FF1, Class M4(a) .....	4.61+	03/25/33	2,00

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Series 2003-FFH1, Class M4(a) .....	5.11+	09/25/33	4,74
Series 2004-FFH1, Class B*(a) .....	5.11+	03/25/34	1,55
Series 2004-FFH2C, Class B1*(a) .....	5.11+	06/25/34	1,25
Series 2004-FF2, Class B*(a) .....	5.11+	03/25/34	90
Green Tree Financial Corp.			
Series 1997-6, Class B1 .....	7.17	01/15/29	5,00
Long Beach Mortgage Loan Trust			
Series 2004-3, Class M9(a) .....	4.61+	07/25/34	2,50
Series 2002-5, Class M3(a) .....	4.86+	11/25/32	2,50
Series 2004-1, Class M9(a) .....	5.11+	02/25/34	4,50

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-----			
Mid-State Trust			
Series 2004-1, Class M2 .....	8.11%	08/15/37	\$ 1,95
Structured Asset Investment Loan Trust			
Series 2003-BC8, Class M2(a) .....	3.37+	08/25/33	3,00
Series 2004-7, Class B(a) .....	4.11+	08/25/34	2,16
Series 2004-2, Class B*(a) .....	4.61+	03/25/34	1,07
TOTAL HOUSING RELATED ASSET-BACKED SECURITIES			
(Cost - \$38,564,966) .....			
TOTAL ASSET-BACKED SECURITIES			
(Cost - \$38,564,966) .....			

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 COMMERCIAL MORTGAGE BACKED SECURITIES - 27.3%

Bear Stearns Commercial Mortgage Securities			
Series 1999-C1, Class G* .....	5.64	02/14/31	2,39
Series 1999-C1, Class D .....	6.53	02/14/31	2,50
Series 2000-WF1, Class E .....	8.16+	02/15/32	2,00
Chase Commercial Mortgage Securities Corp.			
Series 2000-2, Class I* .....	6.65	07/15/32	1,00
GE Capital Commercial Mortgage Corp.			
Series 2002-2A, Class G* .....	6.04	08/11/36	3,00
Series 2000-1, Class G* .....	6.13	01/15/33	1,00

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Series 2002-2A, Class H*	6.31	08/11/36	2,000
Series 2000-1, Class E	7.43+	01/15/33	1,000
Government Lease Trust			
Series 1999-C1A, Class B3*	4.00	05/18/11	2,500
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-WF1, Class E	7.19+	11/15/31	5,500
Series 1999-FNV1, Class E	7.71+	03/15/31	2,000
Morgan Stanley Dean Witter Capital I			
Series 2001-TOP1, Class A4	6.66	02/15/33	4,500
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
TOTAL COMMERCIAL MORTGAGE BACKED SECURITIES			
(Cost - \$39,314,450)			

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NON-AGENCY RESIDENTIAL MORTGAGE BACKED SECURITIES - 36.7%

SUBORDINATED COLLATERALIZED MORTGAGE OBLIGATIONS - 36.7%

ABN AMRO Mortgage Corp.			
Series 2002-7, Class B2	6.20+	09/25/32	1,000
Bank of America Alternative Loan Trust			
Series 2004-3, Class 30B4	5.50	04/25/34	1,000
Series 2004-3, Class 30B5	5.50	04/25/34	700

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THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.

PORTFOLIO OF INVESTMENTS - (UNAUDITED)

August 31, 2004

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-----			
Bank of America Mortgage Securities, Inc.			
Series 2004-A, Class B4	3.95+%	02/25/34	\$ 2,060
Series 2002-H, Class B4	4.70+	08/25/32	280
Series 2002-H, Class B5	4.70+	08/25/32	180
Series 2002-H, Class B6	4.70+	08/25/32	470
Series 2002-I, Class B4	4.74+	08/25/32	480
Series 2003-10, Class 1B4	5.50	01/25/34	560
Series 2002-10, Class 1B3	6.00	11/25/32	1,460
Series 2002-8, Class 1B1	6.25	08/25/32	7,260
Series 2002-8, Class 1B4*	6.25	08/25/32	1,070

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Series 2002-8, Class 1B5*	6.25	08/25/32	80
Series 2002-8, Class 1B6*	6.25	08/25/32	80
Series 2002-9, Class 1B3	6.25	10/25/32	1,76
Series 2002-9, Class 1B4	6.25	10/25/32	1,17
Cendant Mortgage Corp.			
Series 2002-4, Class B1	6.50	07/25/32	2,63
Series 2002-4, Class B2	6.50	07/25/32	1,05
Series 2002-4, Class B3	6.50	07/25/32	61
Series 2002-4, Class B4	6.50	07/25/32	35
Series 2002-4, Class B5	6.50	07/25/32	26
Series 2002-4, Class B6*	6.50	07/25/32	35
Citicorp Mortgage Securities, Inc.			
Series 2002-8, Class B1	6.29+	07/25/32	3,54
Series 2002-8, Class B2	6.29+	07/25/32	1,54
Series 2002-8, Class B3	6.29+	07/25/32	77
G3 Mortgage Reinsurance Ltd.			
Series 1, Class E*	21.62+	05/25/08	4,19
Residential Finance Limited Partnership			
Series 2002-A, Class B5*	3.92+	10/10/34	1,95
Series 2002-A, Class B7	7.27+	10/10/34	1,96
Residential Funding Mortgage Securities I, Inc.			
Series 2004-S1, Class B2	5.25	02/25/34	45
Series 2003-S7, Class B3	5.50	05/25/33	32
Series 2003-S7, Class B2	5.50	05/25/33	53
Series 2002-S10, Class B1*	6.50	07/25/32	70
Series 2002-S10, Class B2*	6.50	07/25/32	52
Series 2002-S10, Class B3*	6.50	07/25/32	52
Resix Finance Limited Credit-Linked Note			
Series 2004-B, Class B8*	6.32+	02/10/36	81
Series 2004-B, Class B9*	9.82+	02/10/36	1,24
Series 2004-A, Class B10*	13.10+	02/10/36	49
Structured Asset Mortgage Investments, Inc.			
Series 2002-AR1, Class B4	4.44+	03/25/32	1,00
Washington Mutual Mortgage Securities Corp.			
Series 2002-AR12, Class B4	4.71+	10/25/32	1,29

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 THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.

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PORTFOLIO OF INVESTMENTS - (UNAUDITED)  
August 31, 2004

	Interest Rate	Maturity	Princip Amount (000s)
-----			
Series 2002-AR12, Class B5 .....	4.71+%	10/25/32	\$ 97
Series 2002-AR12, Class B6 .....	4.71+	10/25/32	1,62
Series 2002-AR10, Class B4* .....	4.99+	10/25/32	1,49
Series 2002-AR10, Class B5* .....	4.99+	10/25/32	1,11
Series 2002-AR10, Class B6* .....	4.99+	10/25/32	1,86
Series 2002-AR11, Class B5 .....	5.14+	10/25/32	89
Series 2002-AR11, Class B6 .....	5.14+	10/25/32	1,48
Wells Fargo Mortgage Backed Securities Trust			
Series 2002, Class B5 .....	6.00	06/25/32	36
TOTAL SUBORDINATED COLLATERALIZED MORTGAGE OBLIGATIONS			
(Cost - \$51,158,427) .....			
TOTAL NON-AGENCY RESIDENTIAL MORTGAGE BACKED SECURITIES			
(Cost - \$51,158,427) .....			
-----			
TOTAL INVESTMENTS - 140.6%			
(Cost - \$203,186,186)** .....			
LIABILITIES IN EXCESS OF OTHER ASSETS - (40.6)% .....			
NET ASSETS - 100.0% .....			
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@      Portion or entire principal amount delivered as collateral for reverse repurchase agreement.

+      - Variable Rate Security: Interest rate is the rate in effect August 31, 2004.

\*      - 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.

(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

#      - Portion or entire principal amount is held as collateral for open futures contracts.

\*\*     - At August 31, 2004, the aggregate cost of investments for income tax purposes was \$203,186,186. Net unrealized appreciation aggregated \$5,048,135 of which \$6,658,323 related to appreciated investment securities and \$1,610,188 related to depreciated investment securities.

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See notes to financial statements.

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 THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.  
 NOTES TO FINANCIAL STATEMENTS - (UNAUDITED)  
 August 31, 2004  
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At August 31, 2004 the Fund had the following reverse repurchase agreements outstanding:

Face Value	Description	Maturity Amount
-----	-----	-----
\$ 5,088,000	Morgan Stanley 1.62%, dated 08/23/04, maturity date 09/23/04	\$ 5,095,000
2,070,000	Morgan Stanley 1.63%, dated 08/27/04, maturity date 09/29/04	2,073,000
12,369,000	Morgan Stanley 1.58%, dated 08/27/04, maturity date 09/07/04	12,374,900
1,988,000	Morgan Stanley 1.60%, dated 08/30/04, maturity date 09/07/04	1,988,700
3,473,000	Merrill Lynch, 1.63%, dated 08/23/04, maturity date 09/23/04	3,477,800
9,300,000	Merrill Lynch, 1.63%, dated 08/23/04, maturity date 09/23/04	9,313,000
3,859,000	Lehman Brothers 1.61%, dated 08/23/04, maturity date 09/08/04	3,861,700
3,171,000	Lehman Brothers 1.61%, dated 08/23/04, maturity date 09/08/04	3,173,200
4,858,000	Lehman Brothers 1.61%, dated 08/26/04, maturity date 09/28/04	4,865,100
6,906,000	Goldman Sachs 1.59%, dated 08/19/04, maturity date 09/23/04	6,916,600
9,529,000	Goldman Sachs 1.59%, dated 08/19/04, maturity date 09/23/04	9,543,700
\$ 62,611,000		
=====		-----
	Maturity Amount, Including Interest Payable	\$62,683,300
		-----
	Market Value of Assets Sold Under Agreements	\$64,790,000
		-----
	Weighted Average Interest Rate	1.18%
		-----

The average daily balance of reverse repurchase agreements outstanding during the nine months ended August 31, 2004, was approximately \$60,977,429 at a weighted average interest rate of 1.18%. The maximum amount of reverse repurchase agreements outstanding at any time during the period was \$75,036,958 as of February 11, 2004, which was 33.62% of total assets.

As of August 31, 2004, the following swap agreements were outstanding:

Notional Amount	Expiration Date	Description
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\$10,000,000      01/23/06      Agreement with Goldman Sachs Capital Markets, LP, dated 01/21/04 to pay semi-annually the notional amount multiplied by 2.005% and to receive quarterly the notional amount multiplied by 3 month USD-LIBOR-BBA.

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 THE HYPERION STRATEGIC MORTGAGE INCOME FUND, INC.  
 NOTES TO FINANCIAL STATEMENTS - (UNAUDITED)  
 August 31, 2004  
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As of August 31, 2004, the following futures contract was outstanding:

SHORT:  
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Notional Amount	Type	Expiration Date	Cost at Trade Date	Value at August 31, 2004
-----	-----	-----	-----	-----
\$1,500,000	5 Yr. U.S. Treasury Note	September 2004	\$1,613,208	\$1,672,500

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 28, 2004

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.

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

Date: October 28, 2004

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

Date: October 28, 2004