

MODEL LEASE CLAUSE

Tenant's Default Halts Reduction in Security Deposit

The following Model Lease Clause was drafted by Orlando, Fla., attorney Stephen W. Snively. Put it in your lease if the tenant wants to fund a

security deposit that will burn off over time.

Show this clause to your attorney before putting it into your lease.

REDUCTION SCHEDULE FOR SECURITY DEPOSIT

- a. Reduction of Security Deposit.** The required amount of the original *[\$insert amount]* Security Deposit to be placed by Tenant shall be reduced as follows: *[insert burn-off schedule, including date of elimination of security deposit]*.
- b. Substitution of Letter of Credit.** If the Security Deposit is in the form of a letter of credit, then as the required amount of the Security Deposit decreases over time, Tenant may substitute a new letter of credit for the reduced amount in lieu of the existing letter of credit.
- c. Excess Proceeds.** If the proceeds of any letter of credit that Landlord presents for payment exceed the amount required to cure the Event of Default, then Landlord shall hold such excess in an interest-bearing escrow account; *provided, however,* that any amount in excess of what is then required to be held as the Security Deposit shall be released from escrow and returned to Tenant if there is then no uncured Event of Default.
- d. Return of the Security Deposit.** Upon the date of the elimination of the Security Deposit as provided in Paragraph a hereof, any remaining portion of the Security Deposit then held by Landlord (*i.e.*, cash, letter(s) of credit, or the remaining proceeds thereof) shall be returned by Landlord to Tenant, to the extent that there is no uncured Event of Default.
- e. Extension of Reduction Schedule.** Notwithstanding anything to the contrary set forth above:
 - (i) If Landlord is required to utilize the Security Deposit (*i.e.*, use a portion of any cash or draw on any letter of credit) for payment of a good faith estimated amount due to Landlord in excess of *[\$insert amount, e.g., \$10,000]* incidental to Tenant's Event of Default, then the schedule for reduction in the required amount of the Security Deposit as provided in Paragraph a hereof shall be suspended until the second anniversary of the *[Lease/Rent]* Commencement Date thereafter, at which time the reduction shall resume at the stage where it was suspended;
 - (ii) Each additional time the Landlord is required to utilize the Security Deposit for payment of a good-faith estimated amount due Landlord in excess of *[\$insert amount, e.g., \$10,000]* incidental to an Event of Default on the part of Tenant, the duration of the resulting suspension period referenced in Paragraph e(i) above shall be increased by one (1) year (*e.g.*, suspended until the third anniversary of the *[Lease/Rent]* Commencement Date after Tenant's second Event of Default and utilization of the Security Deposit); and
 - (iii) The provisions of this Paragraph e shall not apply to any Event of Default resulting in the utilization of the Security Deposit in an amount of less than *[\$insert amount, e.g., \$10,000]*.