

A depositor sued her bank in federal court, seeking \$30,000 in damages. The complaint set out the bank's method of calculating interest and alleged that the method violated both federal banking law and state contract law. The bank filed a motion to dismiss, asserting that its method of calculating interest, as described in the complaint, was proper under federal law and that the federal law preempted the depositor's state-law claim.

The court granted the motion to dismiss the depositor's federal claim and reserved ruling on the motion to dismiss the state-law claim. After completing discovery, the bank has moved to dismiss the state-law claim for lack of subject-matter jurisdiction.

How should the court proceed?

- A. The court may hear the state-law claim, because it is so related to the federal claim that they form part of the same case or controversy. (43%)
- B. The court must hear the state-law claim, because it is so related to the federal claim that they form part of the same case or controversy. (7%)
- C. The court must hear the state-law claim, because the bank raised a federal defense to that claim. (2%)
- D. The court must not hear the state-law claim, because it arises under state law and the depositor seeks less than the minimum amount in controversy. (47%)

Incorrect

Correct answer A

43% Answered correctly

02 mins, 08 secs Time Spent

2023 Version

## Explanation:

**Original subject-matter jurisdiction** refers to a federal court's authority to hear a type of dispute. This requirement is met when a dispute falls within either:

**federal-question jurisdiction** – the dispute arises under the U.S. Constitution, a treaty, or a federal law *or*

**diversity jurisdiction** – the opposing parties are **citizens** of different states and the amount in controversy exceeds \$75,000.

Here, federal-question jurisdiction exists over the depositor's banking-law claim because it arises under federal law. But such jurisdiction does not exist over her contract-law claim because it arises under *state* law. And the federal court lacks diversity jurisdiction over that state-law claim since the amount in controversy is merely \$30,000 **(Choice D)**.

However, when only some claims fall within the court's original subject-matter jurisdiction, the court can exercise **supplemental jurisdiction** to hear the remaining claims. This is permitted when a supplemental claim and an original claim are so related that they form part of the same case or controversy—ie, share a common nucleus of operative facts. But if the **original claim has been dismissed**, then the **court may decline to exercise** supplemental jurisdiction over the supplemental claim.

Here, the depositor's state-law claim is so related to her federal claim that they form part of the same case or controversy. That is because they share a common nucleus of operative facts—the bank's method of calculating interest. And though the court dismissed the depositor's federal claim, the court may—but is not required to—exercise supplemental jurisdiction over her state-law claim **(Choice B)**. Therefore, the court may hear the state-law claim.

**(Choice C)** Subject-matter jurisdiction must be established on the face of the plaintiff's **well-pleaded complaint**—not through a defense raised in the defendant's motion to dismiss.

## Educational objective:

A federal court will generally exercise supplemental jurisdiction over a claim that falls outside of its original subject-matter jurisdiction if it shares a common nucleus of operative facts with a claim that does arise under such jurisdiction. However, the court may decline to do so if the original claim has been dismissed.

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## Subject-matter jurisdiction

